

DISCUSSING THE FUTURE OF FAMILY FARMS: SUCCESSION PLANNING

Succession is about more than just ‘handing over’ the farm. It is about a family balancing different needs to make decisions for the future of the business and the family. This includes:

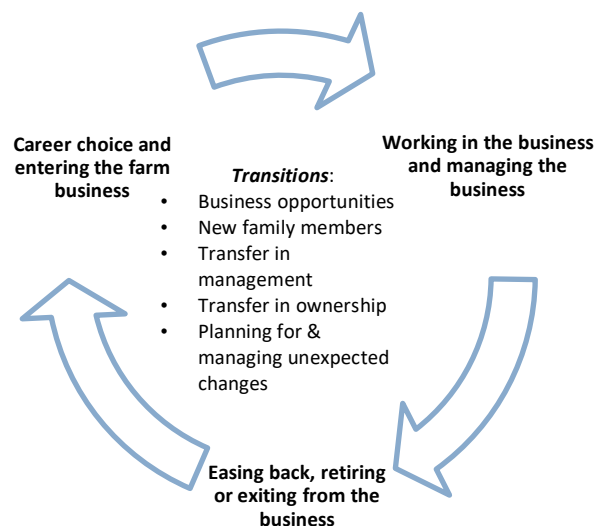
- Understanding goals and expectations
- Maintaining and building a viable business
- Working together well
- Planning career and work opportunities in the business
- Agreeing on how the farm asset will be used and transferred over time
- Family legacy and inheritance issues
- Supporting family harmony
- Providing for retirement



THE JOURNEY OF SUCCESSION PLANNING

A family business moves through different phases. There are also key stages that an individual goes through in a family business. Family members will be at different points depending on their life stage and so will have different priorities:

1. **Making a career choice or entering the farm business;**
2. **Working in the business or managing the business; and**
3. **Easing back, retiring or exiting from the business.**



There are also **key transitions** that can happen throughout these three phases:

- Decisions that are made about business opportunities
- How new family members can become involved
- Planning for changes in management
- Considering how and when ownership may be transferred
- How unplanned events (such as injury, death or divorce) will be managed

These transitions can take time.

Understanding the expectations, needs and concerns of family members helps the family business and family members to make decisions.

MAKING SUCCESSION PLANNING WORK

Succession planning can be managed well and while every family farm is different, there are some key ingredients in making succession work:

Define goals and priorities: Discuss the goals and priorities for family members and the business (e.g. career; housing; lifestyle; retirement; off-farm interests). In a family business there is a close relationship between managing the business, ownership of the business and family members' needs. A decision in one area affects another area.

Communication: this is a key building block that should not be taken for granted. People appreciate having their views heard and being involved in decisions that impact them – especially in a family business.

Financial reality is understood: the financial position of the business and the performance in good and bad years should be understood clearly. This helps to inform what can realistically be afforded in the short term and what can be planned for the longer term.

Plan for key transitions: There are critical times in the life of a business, and within the family, when succession issues are triggered and need to be discussed openly (e.g. entering the business, starting a family or retiring from the farm). Starting the process before a trigger point is best.

Develop options: research, plan and discuss the options that can achieve the goals.

Assess benefits/ impacts/ risks: Options need to be assessed on the positive and negative side. This includes looking at challenging 'what if' scenarios (e.g. what if a business partner wants to leave?)

Opportunities created: having a stake in the business provides motivation to the incoming generation. This can be through achieving independence in areas such as operational decisions, planning and growing the business. Business opportunities, even if small (e.g. leasing, contracting, share farming etc), provide an opportunity for taking on risk as well as reaping reward for effort.

Timeframes/ steps/ transitions: set the timeframes to help with planning and to manage expectations. Agree on the steps that can be taken or the 'triggers' for making the next transition (e.g. after working on the farm for five years)

Confirm plans/ agreements: clarity is important and so writing down the plans or agreements for the family business will avoid misunderstandings.

Off-farm family members: a common question that is raised is how to achieve fairness for all children – both on-farm and off-farm. Given the high capital value of land and the lower income that is earned on farm often this raises the issue of treating all children 'fairly' but not necessarily 'equally'. Communication is essential to understand the 'balancing process' and to clarify the 'terms and conditions' that apply to any opportunities that are provided through the family farm.

Retirement and financial security: Stability of retirement income is an important consideration and farm assets will often be the key financial base. There can also be a degree of comfort in the understanding that their children will provide for them in retirement. However, planning ahead is a crucial step and taking a conservative approach is often recommended.

Professional advice: Advisors can help a family business to achieve their succession planning objectives by addressing issues such as financial planning, estate planning, business structures and taxation.

Regular review: succession is an ongoing process that benefits from regular review to reflect changes in the business and family.

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