SUCCESSION PLANNING FACT SHEET

GRDC
GRAINS RESEARCH & DEVELOPMENT CORPORATION

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Plan to manage family changes and your farm business

The earlier we start succession planning, the more options we will have in responding to the needs of family members and their changing involvement in the farm business.

KEY POINTS

- A succession plan can help farming families and farm businesses to successfully manage anticipated and unforeseen changes in both their family and the business.
- It provides a clear path towards retirement for senior members of farm businesses, with an orderly transfer of business assets, business management and responsibilities.
- Clarifying the aspirations and expectations of family members is an important part of the planning process and can help build understanding and balance to family and work life.
- It is essential to involve legal and accounting professionals in the process when considering changes to the farm business structure.

A long-term strategy

Having a succession plan is a strategy to help family farm businesses prepare for the long-term transfer of responsibilities, capacity management ownership and control of a farm business from one generation of the family to the next.

The earlier a family begins to think about and provide for business succession

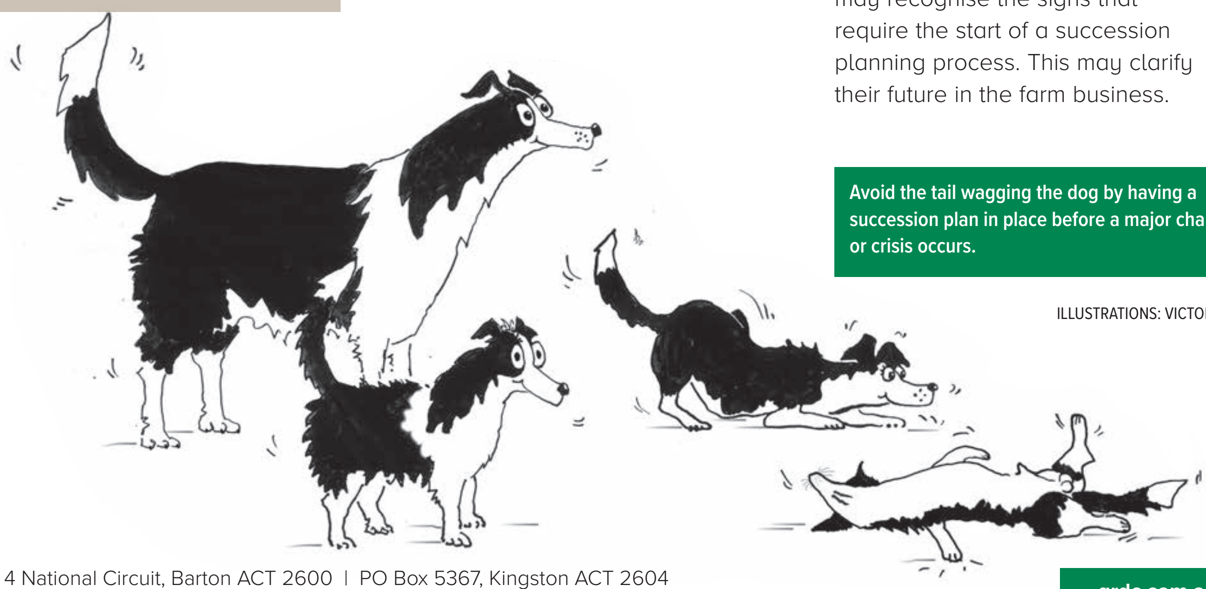
the more likely the succession plan will be successful. It is important the plan is flexible and revisited regularly or when there are changes to the business or family structure. Although some issues such as death and divorce are uncomfortable for families to discuss they can have a major impact on the sustainability and health of the business and the smooth succession of control and ownership it is important that these issues are identified and proactively addressed.

Succession planning is an important business risk-management tool. Developing a plan before a major change or crisis occurs can provide greater stability for the family and the business by helping them to successfully negotiate change. Common triggers for succession planning include:

- new members such as school leavers joining the business
- a family member marries
- starting a new family
- a family member wishing to retire
- illness in the family
- an individual or family member wanting to exit the business or family
- high levels of conflict
- communication breakdown or
- an unhappy or discontented family member.

Succession plans are most easily developed when initiated by the owner of the farm business and farm assets including property.

However younger family members may recognise the signs that require the start of a succession planning process. This may clarify their future in the farm business.



Avoid the tail wagging the dog by having a succession plan in place before a major change or crisis occurs.

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BALANCING FAMILY AND BUSINESS NEEDS

Establishing boundaries between family life and the farm business is an important aspect of succession planning for a family farming business, and helps to minimise discontent within families.

When decisions in a farm business are based solely

on business impacts, there are often negative consequences for the family, both financially and on relationships. This can lead to:

- family disputes, which can incur large legal costs;
- changing of wills;
- decreased profit due to poor communication and commitment;
- loss of family members from the business; and
- divorce and up to 50 per cent loss of equity.

Likewise there are significant impacts on the business if all decisions are made based on the family considerations, which could include:

- decreased equity;
- employment choices based on relationship not skills;
- poor management decisions;
- lack of adoption of technology; and
- lack of efficiency resulting in reducing productivity.

Beginning the process

Developing a succession plan should involve all family members. Three crucial steps in the planning process include:

- gathering information;
- organising a family meeting; and
- seeking expert assistance to plan and run the meetings. Experience suggests having a facilitator and a separate person to record the meeting is highly advantageous.

Successful succession planning requires time and commitment from all involved.

GATHERING INFORMATION

Essential information to bring to a family meeting includes the current financial position and profit and loss statements for the farm business. In some instances it may be possible to organise the business's accountant to attend the meeting, or for them to prepare current financial statements in advance of the meeting. Alternatively, a family member may have the necessary understanding of the relevant financial information to present to the meeting.

Additional information to take to a family meeting could include current and potential future family expenses, such as the education of children and buying or building a house. It could also fund the retirement of senior family members including lifestyle needs and housing.

Individuals should consider their personal aspirations and expectations in relation to the farming business prior to the meeting. Preparation prior to the meeting could include individual discussions with the facilitator.

HOLDING A FAMILY MEETING

All members of a family, including in-laws, should be encouraged to attend a succession planning meeting. When family members are not included (for example those not working on the farm), they may feel excluded and become upset, possibly damaging family relationships.

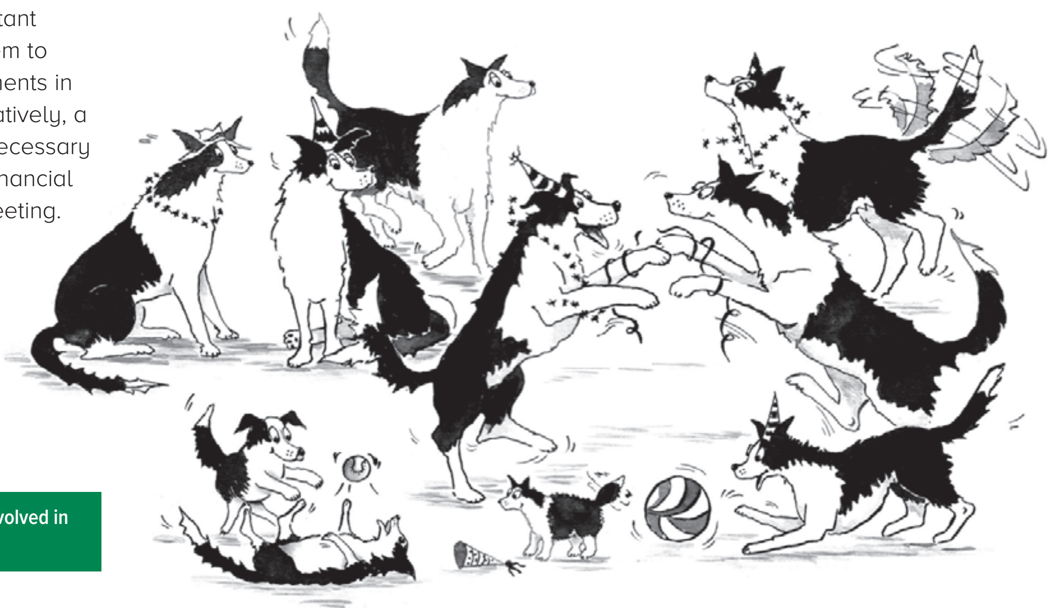
The inclusion of off-farm children/siblings can often provide a different perspective to those involved in the day-to-day running of the business.

Some families might choose not to include in-laws.

The video T*alking Families in Business* may provide information to help address individual concerns about the succession planning process (see Useful resources). The second half of this video provides a snapshot of a family meeting.

SELECTING A VENUE

It is important to hold the meeting at a neutral venue. This minimises distractions and maximises the opportunity for family members to contribute. The venue should have a large table to seat everyone, preferably one that is rectangular rather than square in shape. Meetings sometimes continue late in the day, so it is important to ensure the venue has adequate facilities and is reserved for sufficient time.



All members of the family should be involved in developing the succession plan.

EXPERT ADVICE

An important part of a facilitated family-meeting process is to balance the needs of the family and the needs of the business. If possible an accountant or financial adviser, agribusiness consultant or rural financial counsellor should attend. They add an independent business perspective, and potentially provide instant feedback on the financial implications or practicality of different scenarios being suggested.

Many people choose to have an independent facilitator coordinate the meeting. If the accountant/financial counsellor is not facilitating the meeting they may be able to record it (see below).

An experienced facilitator can help by:

- ensuring that everyone has their say;
- asking difficult questions – questions family members may prefer to avoid;
- maintaining the focus and direction of the meeting;
- assisting family members to identify their needs and aspirations and to express their expectations in relation to the farm business in both the short and long-term;
- managing potential conflict between differing expectations and objectives of family members; and
- taking into account differences in the communication styles between generations, and managing these to reduce potential conflict.

Accounting and legal advice can be sought after the meeting has identified potential options to investigate if the relevant advisers do not attend the family meeting. No changes to the farm business structure and ownership of assets should be made without seeking legal and financial advice.

Planning may include transferring ownership of machinery or livestock, transferring the management of part of the farm, and eventually transferring ownership. However the maze of implications of Capital Gains Tax (CGT), stamp duty, and Goods and Services Tax (GST) will hinder, or in fact prevent, many options as the costs might well be prohibitive. Seeking expert advice on these issues will be essential.

CHOOSING A FACILITATOR

Aim to choose a facilitator everyone is comfortable with.

Questions to consider include the following:

- what have we heard about them?
- do they have any alliance to individual family members, real or perceived?
- do they have professional indemnity?
- are they professional?
- do they have any quality assurance measures in place?
- what training or experience do they bring to the job?
- what training or experience do they bring to our family and business?

When choosing a facilitator, it helps to understand that different approaches and personalities will suit different families; talk to people you know who have completed the process.

A facilitated family meeting should help to generate some options for a succession plan, subject to further investigation and expert legal and financial advice. In conjunction with a succession plan, family members should consider revising their wills.

RECORD THE MEETING

It is crucial to have a written record of the meeting. It is best to have an agreement about who will produce this record before the meeting. The accountant/financial counsellor might be able to provide this service or, alternatively, another impartial person who is not involved in the meeting process could be asked to attend in order to record the meeting.

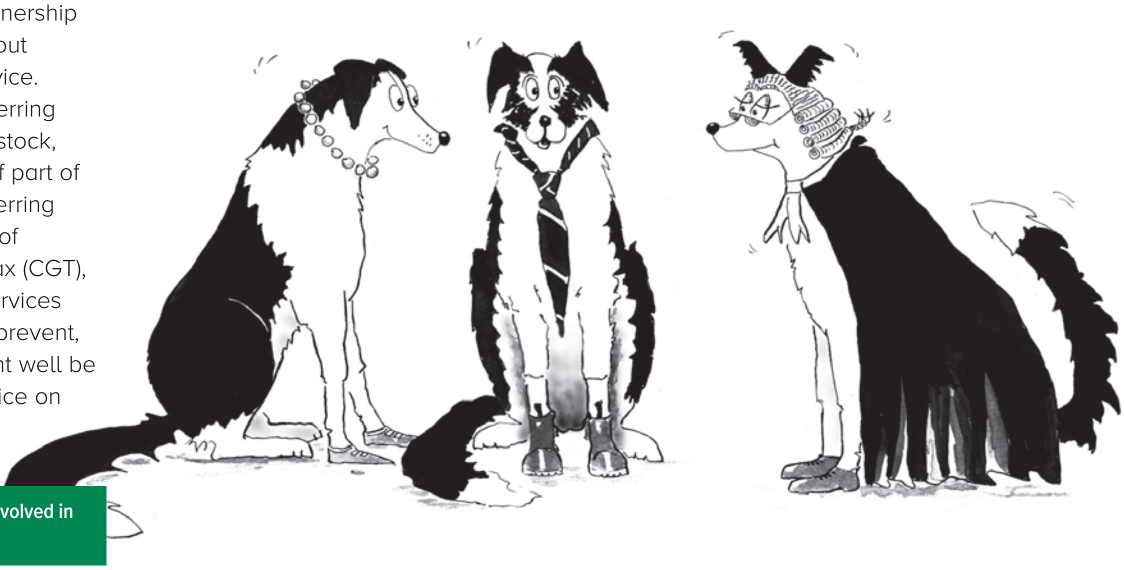
The written record should identify agreed actions and timelines, including a timeframe to review the development of the plan and additional information required to finalise the plan.

Planning for retirement

Succession planning helps us consider pathways for senior members of the family business to move towards retirement. Considerations in planning for retirement include:

- the amount of capital required to fund retirement;
- where retirees would like to be in the future and what they could be their areas of future involvement in the business;
- the potential and time required to build up off-farm assets;
- the potential to fund a pension through superannuation contributions;
- beginning a superannuation pension;
- transferring assets to superannuation to fund a pension; and
- future access to age pensions.

There is no right or wrong answer in developing a succession plan; the aim is simply to provide the best possible outcome for your family and your farm business.



All members of the family should be involved in developing the succession plan.

GENERATIONAL DIFFERENCES

Fundamental differences exist in the values, communication styles and attitudes to work between generations, and it is important to understand (although not necessarily agree with) these differences. They influence work ethics, world perspectives, management styles and work priorities, including how people work.

Veterans (pre-1946) Veterans are private people often referred to as 'the silent generation'. Members of this generation cannot be expected to share their thoughts immediately. They believe that 'your word is your bond'. They prefer face-to-face or written communication and do not appreciate others wasting their time.

Baby Boomers (1946-1964) The baby boomers are the 'show me' generation. Body language and an open and direct style of communication are important. Avoid language that articulates control, answer questions thoroughly and expect to be quizzed for the details. Present options to demonstrate flexibility in your thinking.

Gen X (1965 to 1977) Gen X-ers use email as a primary communication tool and accept direction in short directives; they do not enjoy long explanations. Always ask them for their feedback and provide regular feedback in turn. They like to be 'kept in the loop', so share information on a regular basis. They prefer a relaxed, informal style of communication.

Gen Y (1978-1994) Gen Y uses electronic forms of communication, so use email. When speaking with them use language that paints pictures. They like to be challenged. They resent being talked down to (as do most generations). Give and receive feedback frequently. They appreciate humour and an interesting and interactive learning environment. They have a great team spirit and enjoy socialising with colleagues.

USEFUL RESOURCES

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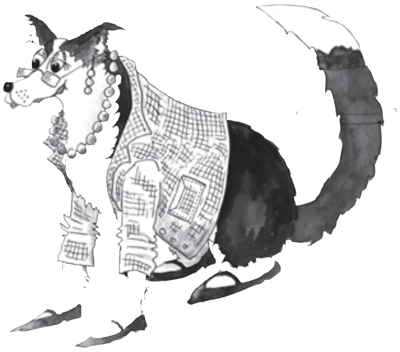
A Guide to Succession: Sustaining families and farms
www.grdc.com.au/successionplanning



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	Veterans	Baby Boomers	Generation X	Generation Y
Education and qualifications	Least studied, least understood generation	Shaped the youth culture of the 1960s and 1970s	Most educated generation	Very techno-literate, most ethically diverse
Business role	Firm leaders, empty nesters with decent incomes and growing leisure time	Primary leaders, looking toward retirement	Senior staff and middle management	The workforce of tomorrow
Career	First generation of women to move into the workforce at significant rates	Work long hours, children home alone, women into management roles	Committed to being available to their families and work/life balance	Expect to change jobs frequently
Lifestyle	Place importance on human relations; many are involved in cultural and society issues, age not a barrier	Risk takers, value creativity, adventure, independence, may be permissive	Cynical, sensitive to hype and politics, enjoy music and problem solving, flexibility and independence value teamwork, friends, and are not intimidated by authority	Team players, strong sense of fairness and ethics, respond to humour, direct language, easily bored; respect earned, not positional
Attitude to work	Work first	Live to work	Work to live	Live, then work

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