

# Succession Planning for Family Farms

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## Introduction

- Good business practice sets up family succession
- Volumes of information available
  - It is the 'how' which is challenging
- 3 key areas to address
  - Preparation – get your act together
  - Transition of Management
  - Transition of Business
- But there is one more!
  - Personal Relationships

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## Preparation.....Family Meetings & Advisory Boards

- Family Meetings
  - Family buy in
  - Start early involve everyone
  - Keep the minutes/notes
- Role of Advisory Board
  - Education
  - Independence

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**Preparation.....Business Viability**

- Understanding the financial resource base
- Match the capacity of the business to the plan at hand
- Is there likely to be succession debt?

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**Preparation..... Business Viability**

- Key metrics
  - Amount of cash return the business generates
  - Amount of profit
  - How much free cash is there, is it covering depreciation?
  - Return on capital, understanding the relationship with cost of finance
  - What are the private drawings requirements?

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**Transition.....Operational Management**

- Younger Generation
  - Must have passion for the business
  - Demonstrate capacity to work, learn & then manage
- Separation of Land Ownership & Business Ownership
  - Concept of leasing or rental
  - Building working capital
- Role & Responsibility
  - Personal Growth
  - Accountability – for successes & failures

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**Operational Transition.....Models of Transition**

- Responsibility for a particular enterprise
- Sharefarming or leasing
- Establishing another business – contracting
- Land acquisition
- Alternate Business

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**Business Transition.....Strategy**

- Simple strategic plan
  - Key 5-10 year goals
  - KPIs, measures, if you cannot measure it is not a goal
  - Current Scorecard vs Future Scorecard
  - Key strategic Pathways
  - Annual action plans + priorities + key risks
- Then, annual review of the strategic plan

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**Business Transition.....Parents Safety Net**

- **It is imperative that parents retain a safety net:**
  - Retention of some land ownership
  - Holding a 1<sup>st</sup> mortgage over some land
  - Use of land held in self managed superannuation
  - Family agreement
  - Sunset clauses

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**Business Transition.....Family Agreements**

- Key intentions of the Family Agreement
- Parties to the Agreement
- Land transfers, sale, or lease agreements
- Financial Obligations to parents
- Responsibility for taxation liabilities arising
- **Sunset Provisions**
- Acknowledgement and Agreement by each individual
- **Responsibility to parents for aged care**
- Various Legal provisions including indemnities, dispute resolution, cost allocations
- **Documenting Family History**
  - + preferred legacy from parents
  - + the why of the family succession

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**Business Transition.....Personal Identity**

- **Allow the young ones to develop their own identity**
  - There can be competition
- Overseas Studies – Scandanavia has shown the importance of identity in succession
- Case Study – operational change

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**Personal Relationships...some tips**

- Early education is vital
  - We want people to understand
- Keep expectations low
  - Overpromising creates a minefield
- Expressing hope can create expectation
  - "one day this will all be yours"
- Don't expect everyone to get along
  - That is just the way it is sometimes

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### Personal Relationships.....some tips

- It is difficult to beat emotion with logic
  - But one must try
- Be prepared to use personality profiling within the family
  - Understand how people think, react & understand
- Include girlfriends, boyfriends, others as soon as possible
  - Be inclusive not exclusive
- Asset protection is important
  - But should not be used as an excuse to stop succession
- Be patient in the process – concerns float to the top
  - Facilitation process is vital

**"Personal resentment is a cancer for family businesses"**

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### Personal Relationships – Engaging Professional Advice

- Key point is that a range of expertise is required:
  - Farm Consultant/Analyst
  - Facilitator
  - Accountant
  - Lawyer
- Be prepared to find the right adviser(s)
- Trying to do it on the cheap can be a mistake
- Family members need to be given option of seeking their own advice
- Time, time, time

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### Personal Relationships – Succession Process

1. Communication with everyone to discuss & understand goals & needs
2. What are the guiding principles of the family
3. What are the options
4. What is the best option that could meet everyone's needs, but with compromise
5. Obtain advice on the range of options
6. Confirm the best option
7. Communicate with the family the best option and reasons why
8. Implementation of succession
9. Review when critical events occur

Original Source: Farm Owners Academy, modified by author  
 Reference: LN Polkinghorne, Building Resilience in Family Business – Family Succession, IFMA Conference 2024, [www.ifma2024.com](http://www.ifma2024.com), Applied Papers pp 108-116

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### Family Succession.....Summary

- Set the business up for succession
- It is nearly impossible to be totally fair
- Look after Mum & Dad
- Next Gen need to commit to their own development
- A viable business is vital – understand the business
- Succession takes time and allocated resources

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