

SUCCESSION PLANNING – “HITTING IT ON THE UP”

Tony Hammington
Rabobank, Invercargill

Farm Succession is a global challenge. It is one of several spokes in a wheel of complex solutions to the challenge farmers face feeding a world population predicted to increase from 7 billion to 9 billion by 2050.

Populations are aging as the Baby Boomers approach “retirement” and farming is not immune. In the USA, for every farmer under 25 years old there are seven older than 75 years old. In Australia, the average age of farmers has increased from 44 to 56 in the past 30 years. Rabobank’s 2013 New Zealand research revealed 59 per cent of New Zealand farmers surveyed were expecting their farm to change hands in the next decade.

There are many successful family farming businesses thriving into their third or fourth generation. However, there are also many families struggling to manage inter-generational transition. Historical increases in farm values, poor family communication and the increasing demands of running a business in the primary sector have contributed to the dilemma.

Increased farm values have heightened interest around who is entitled to what, and also increased the sense of security that the retiring generation have access to a sum of capital that will look after them in their latter years. The large asset values don’t make the subject easier to talk about, nor do legal structures targeting tax efficiency or capital protection.

Understanding the foundations

Whose demands does a closely held business serve? Often the clarity for what longer term success for the business looks like is built on getting clarity from knowing what is success for the stake holders (aka shareholders, family members). The impact of changes in personal goals in a closely held business is much more significant than in a public company. A family farming business often serves varying needs:

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- A generation looking to decrease responsibility and physical contribution, and reap some return from their life's work
- A generation looking to increase their contribution and grow responsibility and be rewarded for investing their productive years, and
- Maintaining family relationships and bonds across multiple generations.

When couples have clear goals and know the operational implications of their goals for the business, there is a base to spend some time to work through some 'what if scenarios'. This process is driven by the family culture, the values that children have grown up with, and what age they are when the discussions begin to take place to shape the children's aspirations.

Is the best strategy to keep husbands, wives, girlfriends and boyfriends at a distance? Two thousand four hundred years ago, a Chinese general and military strategist, Sun-tzu, said, "Keep your friends close, and your enemies closer". Ignoring the possibility that partners may not be "enemies", Sun-tzu's statement has value for farm succession when partners can come from non-farming backgrounds or different farming family cultures with a different perspective on the business. Understanding what a partner is thinking and why, may offer a unique view that constructively challenges existing philosophies and ways of working together.

Sun-tzu also encouraged longer-term thinking. Farm businesses and their capital certainly have the potential to straddle multiple generations when a family is prepared to entertain a wider perspective. As farm scale increases it is becoming easier to separate medium-term operational roles, rewards and responsibilities (which may be in a 15 year business cycle) from the long term capital management, and associated challenges, strategies and outcomes. A lot of balance sheets are controlled by farmers who have spent their working lives making personal sacrifices to ensure the success of their business. As they ease out of the workforce, the business now begins to work for them. The next phase is about their personal goals and financial security (capital and income). Getting clarity on what options this may include is crucial, as is catering for both Plan A (good health) and Plan B (injury, illness or death).

The incoming generations are presented with a world that offers more choices for career, education, travel and leisure, and generally have a different view on what 'work-life balance' means. Sometimes this can look quite different to what their parents experienced at a similar age.

Communication

"The single biggest problem with communication is the illusion that it has taken place."
George Bernard Shaw

Succession involves talking about some uncomfortable subjects – money, growing old, death or disability. Succession also involves the transfer of 'soft assets', including experience,

reputation, business relationships and networks. So, how do families talk through these issues? This process will benefit from creating the best environment.

Talking about personal aspirations can be very challenging in itself. How is the older generation's value and sense of purpose retained? How is securing their desired lifestyle and constantly evolving needs taken into consideration? Simultaneously, the incoming generation are looking for rewarding and secure (responsibility, income and capital) careers, but not at the expense of family relationships.

Creating a conversation that shares the generations' expectations before committing to a pathway is a great habit to build into family dialogue. Open conversations are less threatening and contentious if they begin long before decisions are made. Creating an environment to discuss family and business content is a great investment. An agreed agenda, an environment more formal than the kitchen table, and independent chair in charge of process, helps create good habits, growing family members' confidence and competence over time. It can become an established 'culture' when "in-laws" are introduced.

Financial information is sensitive, but critical. Financial information including assets and liabilities and net profitability establishes business capability to understand what options are available. It may encourage discussion about "what is the future legacy we can build?" Balancing future opportunities for business growth with capital and income needs of stake holders relies on establishing key priorities and demands constant monitoring and adjustment.

The opportunity

Farm succession represents an opportunity to work collaboratively and talk about what the family wants to create – individually and/or collectively. Family collaboration is a much more energising approach than narrow and contentious questions of 'what is my share?'

The farm balance sheet is a platform for the wider talents and networks of families to navigate the inter-generational journey that may seek rewards for individuals and businesses inside the farm gate and possibility further afield. A measured approach based on current business capability that enlists the resources of the wider team has resilience to accommodate

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internal and external challenges and short run volatility. It is the opportunity that is front of every business and when Zig Ziglar said “success is when opportunity meets preparation”, he outlined the work to be done.