



*A Report prepared for
The Kellogg Rural Leadership Programme 2017*

**Farming in the family with positive succession
planning and governance**



New Zealand's specialist land-based university

Chris Sclater 2017

i. Executive Summary

The fundamental drive behind completing this research is to identify various key procedures and initiatives that successful New Zealand family businesses instrument to ensure their achievements and wealth are passed down through the generations successfully. I was also concerned in clearly recognizing some of the common issues which arise in family succession strategies and methods in which these matters may be avoided.

This project will benefit the rural community to hopefully provide an insight into farming families to think about the big picture and long-term viability of their business. I want the project to benefit farming families and professional advisors by also providing some context around governance and effective structures which have been planned. I hope the rural industry will relate to this report and understand that all families are different and not one plan will work for everyone. I want this report to provide guidance around communication and when and how to remove the elephant in the room, leading to successful conversations and positive outcome for all parties involved.

Succession planning is the progress of a strategy that ensures transition of the family farm, from one generation to another with minimal disruption. Succession planning can often be a living document to safeguard all family relationships and future ownership of assets, aspirations and involvement in the farm. Rushed or poorly planned and implemented succession strategies can have major impacts on family relationships along with extreme financial implications on the business.

What I relished most about putting this research paper together and gathering the required data was the chance to spend time with farming families who had extremely successful industry knowledge; and sit around the kitchen table with them and speak openly about their own businesses and experiences. They each happily shared with me the issues and barriers they had challenged along the way, and what they had learnt along the way from any mistakes. These people have been there and done it and could share their real stories with passion; their experiences and knowledge in my opinion, is considerably more valued than any other material source obtainable. I enjoyed this part of my research to be extremely exciting, and it reiterated to me how much I enjoy the Agriculture industry and what a joy it is to be involved in.

From gathering my data for this literature report I have made three recommendations for effective and successful farm succession of the family farm.

1. Start early with conversations to avoid any assumptions or expectations which members of the family may have. These discussions should start at an early age, as young people's interests do change, along with abilities and skill set. A poorly executed plan and approach can often be put together at short notice with damaging effects to family relationships.
2. Open communication to stimulate a range of sophisticated thinking throughout the farm succession process will help to get an enhanced understanding of all family members' idea and vision for the family farm. In my opinion both farming and non-farming family and spouses should be involved in this communication. It is also essential to seek independent advice from a succession facilitator, and have other trusted advisors involved including Bank Manager, Accountant, Lawyer, and Farm consultant.
3. Document everything with a completed business plan which is handed to all family members. Consider including minutes from meetings, farm succession strategy including timeframes, roles and responsibilities, goals, and updated wills.

ii. Acknowledgements

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The major sponsors of the Kellogg Rural Leadership programme for their financial assistance and backing, including FMG, DairyNZ, Beef + Lamb and AGMARDT.

Mandi Mcleod (succession facilitator) and Hayley Cunningham (BNZ Agribusiness Partner) originally encouraged me to apply for the Kellogg Rural Leadership Programme. While employed at BNZ as an Agribusiness Partner I worked alongside Hayley who saw me grow into my role, and worked with Mandi facilitating in numerous family succession discussions during my career at BNZ.

To all the people, farming families, rural professionals, businesses who have all given their time to contribute to this project, and provide me with knowledge and insight into succession planning.

I wish to genuinely thank Patrick Aldwell, Desley Tucker, and Anne Hindson who have co-ordinated the Kellogg's programme. The enthusiasm and passion you all show for successful leadership within the Agriculture sector is motivating and I have been fortunate to network and get to know you during the course.

Most importantly.....

A special thank you to my family Mum, Dad, Andrew (my brother) and Kirsty (my sister) you have all supported me in various ways during the last 6 months while I was completing the programme. The support you have provided has been greatly appreciated, along with knowledge and skills you all have in a wide range of expertise from farming, accounting and legal advice.

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1.0 Introduction

The purpose behind researching this topic initially came from the passion I had in this area while banking but more recently driven from personal situations within my own family. The purpose of selecting farm succession came from my previous role as a rural bank manager at BNZ working directly with farming family business, and a common conversation was dedicated to discussing goals and objectives for the family farm and next steps for farm ownership. I have also worked in our own farming operation over the years, and feel a certain amount of responsibility to offer leadership within our family and the wider industry. Combined with interest and desire to distinguish key processes and strategies that well established and recognised family business's implement.

Raising the matter of farm succession between family members is never easy. It is often 'the elephant in the room' and is extremely challenging. However if a successful plan can be implemented with an agreed succession strategy, farm succession can be very worthwhile and a satisfying journey for all involved. A lot of families both differ and disagree on what the farm succession approach should be and fail to formulate a strategy. Sometimes family generations feel they have conceded on some of their expectations to ensure succession occurs.

Every family business is unique in its own way, and there is effectively no 'one size fits' all approach to successfully leading a family business to an effective succession plan. One of the main purposes of this report is to provide a succinct overview on the topic of family succession planning within the family farm with positive planning and governance. The report is dedicated to people involved in family businesses within the primary sector, and aims to identify issues arising within succession plans and ways in which concerns could be avoided.

2.0 Aims and Objectives

Being the oldest child in a dairy farming family with two siblings I have a real understanding of what leads to a long term viable and effective succession plan and the issues which need to be avoided. My long term vision is to see an intergenerational family operation providing employment and opportunities for further growth and investment within the family and generations to come. It is essential to have comprehensive drivers to a successful farm succession and the barriers occurring with the process. A plan which has been rushed or not executed with strategy and governance could lead to disagreements amongst family members and potential family consequences where relationships are broken.

One of the main objectives which I hope this report can provide is to inspire readers with an interest to initiate conversation earlier around succession planning rather than avoiding it until it may be too late. I would like to see this report provide thought and opinions which can assist families with some tools and context around governing a family business. Also to implement some kind of succession plan, if the desire of the family is to keep farming in the family and pass the farm down to the next generation and provides long-term growth for the family business.

In this report the purpose is to provide opinions and views around the following questions;

What are some of the effective plans and practices which have enabled family farming operations to continue to keep farming in the family and pass the farm down to the next generation?

The report aims to identify if the family farm is still the backbone of the New Zealand primary industry? If so how to implement a plan with positive governance structures?

What are important processes and thoughts which successful family farming businesses have applied which leads to their success?

3.0 Literature Review

3.1 Setting the Scene

Planning farm succession is challenging at the best of times and frequently ends up delayed, is often to be discussed for another day and is put into the 'too hard basket'. Transferring of assets from one generation to another is intuitively what people think of farm succession, however it is much more than this. If a poor succession plan has been implemented this can have a major impact on family relationships and financial implications to the family business.

When it comes to succession the word elicits various responses from people. The fundamental meaning of succession is a process involving the transfer of the financial assets of a business onto the next generation, along with the farming business experience and knowledge. Often little or no attention is given to the question of 'fairness' nor the dreams, desires, and expectations of those involved in the family business until the last minute, often too late (McLeod, 2014). A number of strategies designed are to accomplish a combination of tax minimisation and the separation of assets in equivalent shares created by the existing owners (Mum and Dad) desires.

Another approach to family farm succession for family members involved is starting with business planning from the outset, with the intention of an intergenerational business model and meaning. McLeod (2014) refers to it as the business continuance model. It works from the beginning that the family business will be in a position to precede the current generation with or without family members at the helm. In order for this model of succession to function it involves the approaching needs, desires, fears and expectations of people involved in the family business to be connected via family business meetings from the start. Long-term viability for the family business is essential and McLeod reiterates this message to focus on positive cashflow with a profitable return.

Farm ownership is often the motivation of succession, whereas the concentration should be placed on the roles and responsibility that link to the business performance – governance and management. Naturally in small family farms there are challenges as to 'wearing multiple hats' and of struggling to 'work on the business, not in the business' (ANZ 2012). Governance in the family business is primarily holding individuals accountable to the vision, values and policies (fiscal and management) set by the family business owners. (McLeod M., Farm Ownership & Transition Workshop Resource Book. 2014).

Figure 1 below shows a model that has limited choices for succession to happen as one person does it all, consequently limits the ability to bring in the next generation and for the retiring generation to continue to contribute their abilities and experience after they finish working on the farm. As opposed to figure 2 allows for separation of roles of ownership, governance, business management and the day to day operations. This enables many more possibilities for successful generational transition and succession within each of the roles. More flexibility is provided to family members to step in and out of the business during the transition as they semi retire.

Figure 1. A Typical Model for Many Farms & Businesses. From *Passing the Baton*, ANZ Bank Limited (2012).

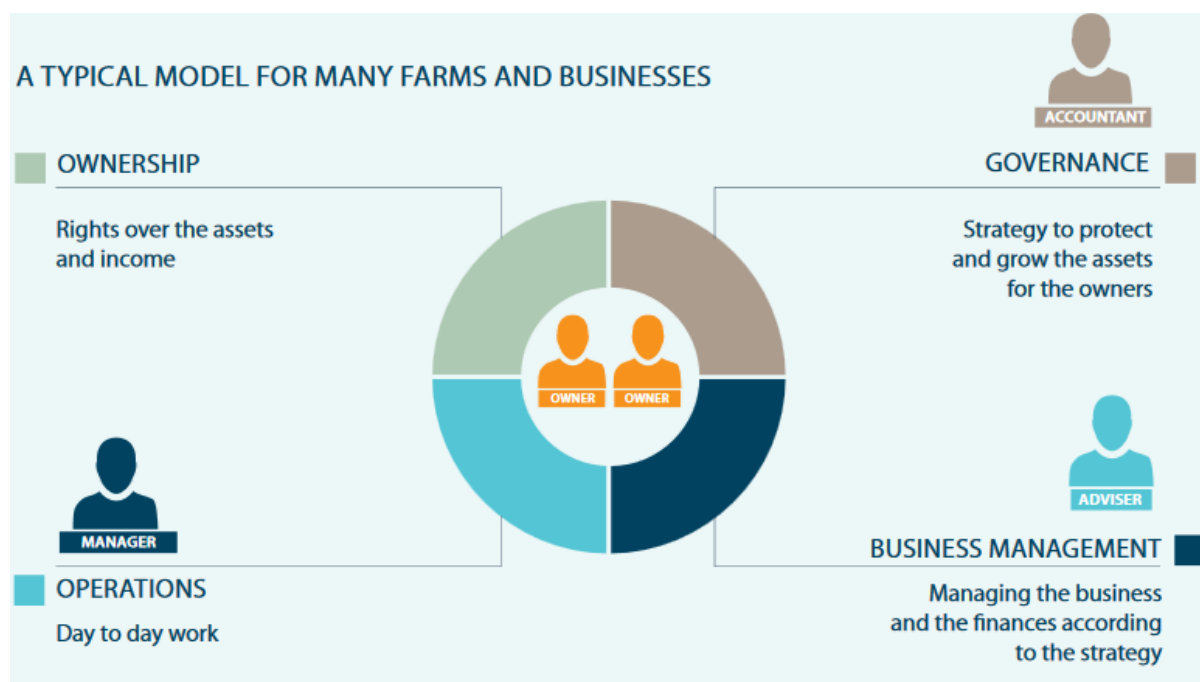
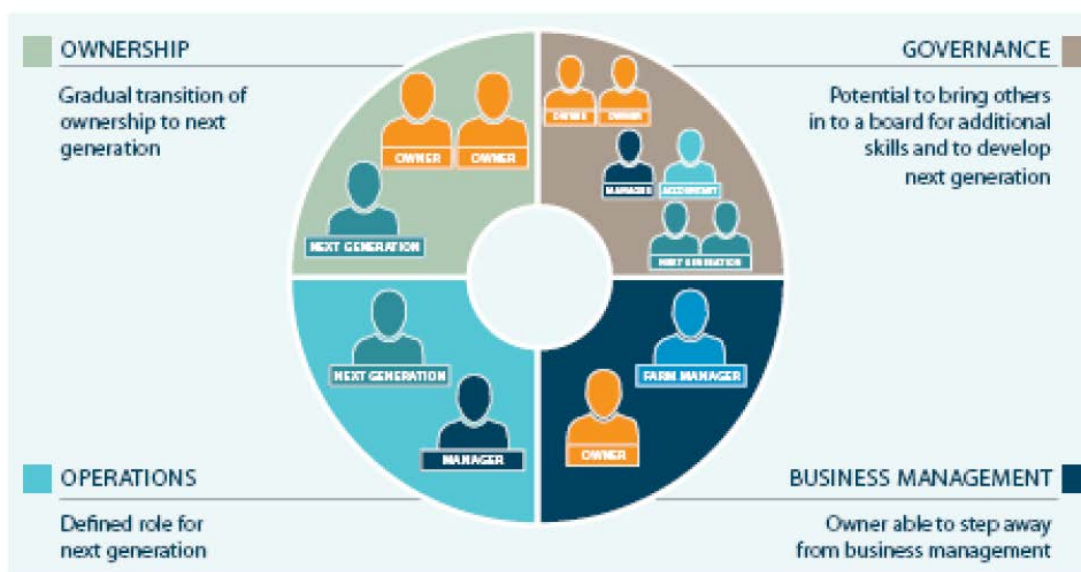


Figure 2. Separation of roles provides more options. From ANZ Barometer (2012).



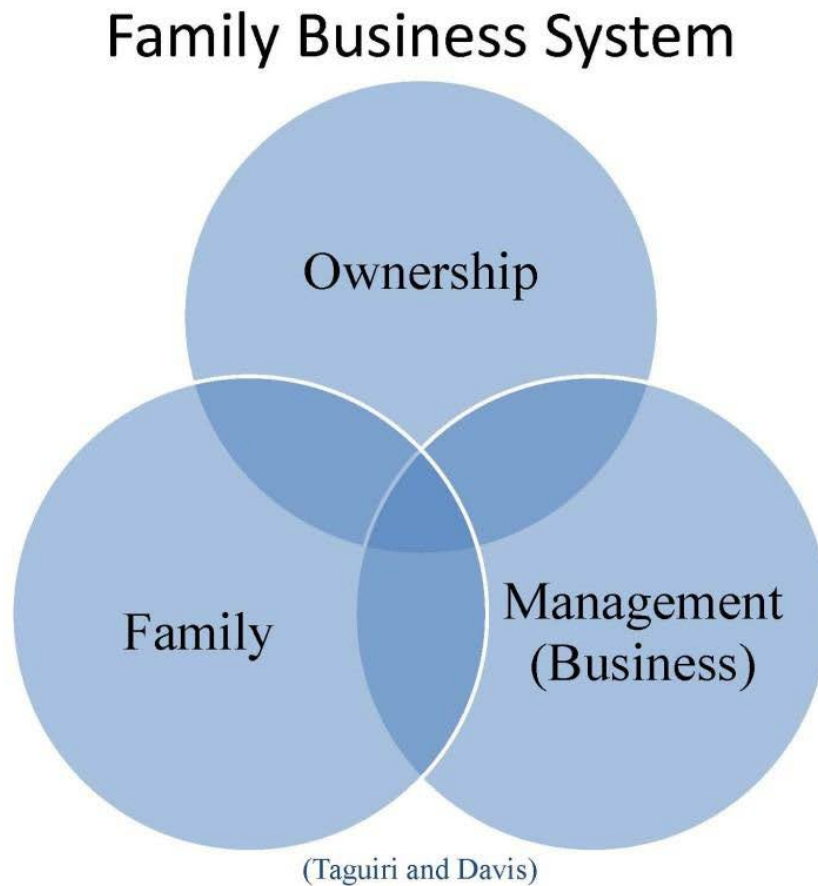
“Family businesses play a major role in the New Zealand business landscape. The majority of family businesses are in their first generation and the numbers decrease significantly for those residing in later generations, indicating a certain lack of longevity. A lack of longevity of New Zealand family businesses detrimentally impacts on the country’s economy in terms of provision of employment, GDP per capita, as well as business growth.” (Hirsch, 2011).

A family business can be defined as a business where participants of the same family vigorously own and/or manage a business. Family businesses are unique and complex, and commonly face

numerous challenges and have a level of difficulty in contrast to a more common business company. However executed effectively, family businesses can provide the potential to be extremely effective enabling security, employment, and investment openings within the family.

Figure 3 diagram below illustrates the interweaving of the important facets of a family business, which reinforces the complexity, difficulty and issues which could lead to conflict. Devising certain roles and well-structured governance is essential in the family business to prevent any disputes or concerns which could arise.

Figure 3. Family Business System (Taguiri and Davis, 1996)



3.2 Background material to reinforce the importance on Farm Succession

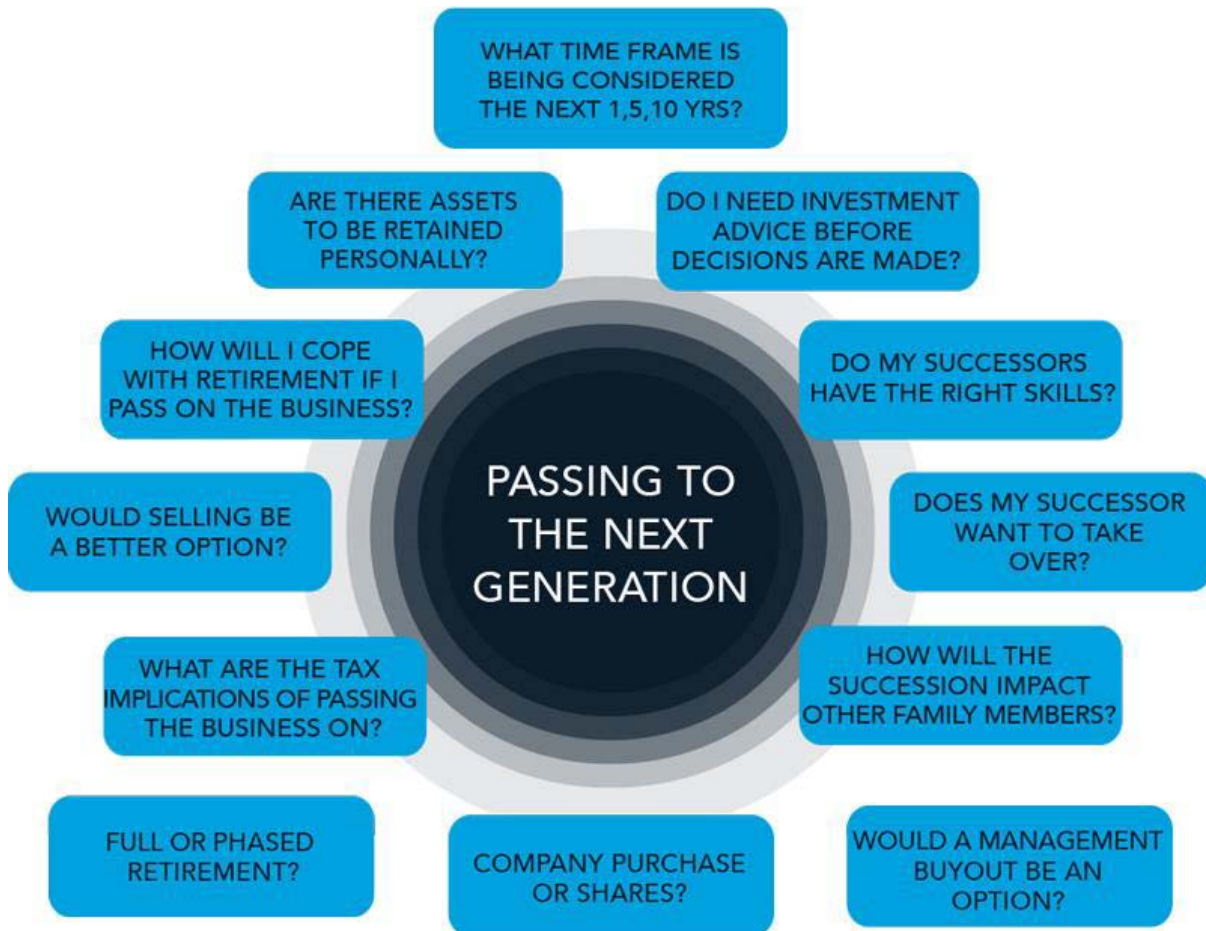


Figure 4: Passing To the Next Generation. *From Saint & Co, Chartered Accountants*

These details are taken from a MAF Policy survey (1998) on farm succession;

- Average age of retirement was 59 years.
- Average age when succession complete was 42 years.
- Transition period of succession – 18 years.
- All children thought their parents had done more planning than they actually had.
- Important outcomes of the farm succession process;
- Secure retirement income of parents.
- Expectations that all children would be treated fairly (not necessarily equally).
- Ensure on-going viability of the continuing business.

The figures were attained from studies back in 1998. There is little suggestion to provide that these facts have changed. The family farm can cause quite of a lot distress for members of the family who had long term ideas. This is how the farm succession progression develops. There is no single or accurate way to solve farm succession and different resolutions work for different family business based on their situation and various methods for succession to occur. To ensure a successful and prosperous plan to be implemented the use of independent advice from trusted advisors, who offer specialist advice in their expertise is critical. Innovative family businesses are effective since they preserve the fundamentals and history of the family business and capture new opportunities across successive generations and reinforce the legacy of the family farm.

Dairy NZ, which represents Dairy Farmers, in New Zealand recognized there was little information for dairy farmers in New Zealand on succession planning, with most advice being delivered by rural professionals, whether it be banking, accountancy or legal (Dooley & McLeod, 2012). Massey University held an International Farm Succession Summit in 2012, which brought leading researchers from around the world. It was aimed to gather material on farm succession to allow quality for professional development programmes for rural professionals in New Zealand to be able to support their clients navigating farm succession (Dooley & McLeod, 2012). The presentations received up to 27,000 views, with workshops being held in Methven and Hamilton during 2013, focussing on communication and potential barriers in relation to intergenerational transfer of the family business. It has helped to assist rural professionals to gain further understanding of the issues on farm succession and potential effects it can have on the business.

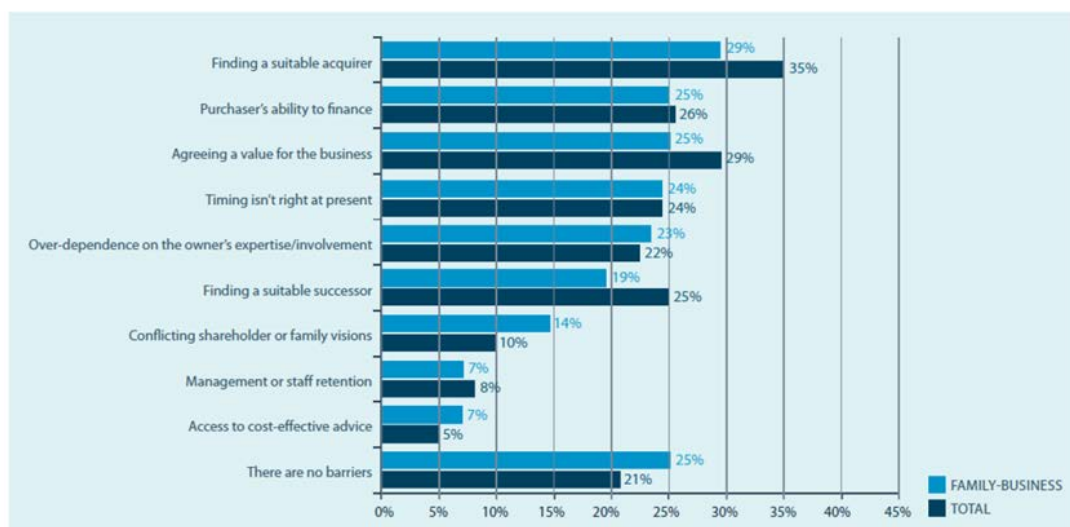
3.3 Barriers to Farm Succession

The ANZ business barometer offers insights into business owner attitudes and behaviours. Highlights from the 2012 barometer showed variations in succession matters confronted by those in family businesses compared to non-family business and is a fascinating contrast between the two.

Figure 5 below shows the top barriers to succession were: finding a suitable acquirer, purchaser's ability to finance, agreeing on the value of the assets, there are no barriers and the timing is not quite right. Of interest is the comment around 'there are no barriers to succession' which when considering what Old & Nuthall found with 81% of farmers propose to transfer their business, which could potentially dispute this result as they contradict the succession process.

Further insight into succession emphasised that there is significant risk for the future of some family farming businesses, with 50% having no plan at all. Twenty-four per cent of businesses are developing some form of a plan, with 17% having an informal plan, and 10% of businesses having agreed to a formal succession plan. This raises not only the potential risks for current family businesses, but also provides another hurdle as to who will be farming the land in the generations to come. Farm succession and the issue of attracting and retaining talented people in agriculture is one of the most important challenges facing farming today.

Figure 5. Barriers to Succession – Family Business Compared with Non-Family Business



(ANZ, 2012)

3.4 Financial Security

If a business isn't cost-effective, the question has to be asked, 'what is being accomplished from succession'? An operation which is viable and well managed makes it easier to reach a decision on value and securing finance; two of the main issues with succession that plague business owners (ANZ 2012). During the process of succession there is a fascinating dynamic in terms of wealth, and for the retiring generation it is a major change. Not only have they spent their time developing wealth, they now have to concentrate on asset protection and distribution, bringing taking into account their life expectancy. This compared with the incoming generation who are generally asset poor and are continuously seeking opportunities and openings to grow their wealth, and want to continue the family farming legacy. Ian Blackman quotes the following, "A flexible and resilient plan for the succeeding child, to ensure that the land and buildings and the farming operation transfer smoothly and properly to the succeeding child and create a business that has long term viability, to survive generations" (Blackman, 2011). "The actual sale of the farm from one generation to the next is a relatively simple process and no different from selling the farm to a third party." (Blackman, 2011).

It is essential to establish financial viability and ensure the farming business is in a position where it can support the parents to secure an income for their future. "Once the parents, financial position is established it is just as important to establish whether the business has the scale to provide financial security for both the parents and succeeding children" (Blackman, 2011). There is little point implementing a succession plan if both the parents and the succeeding child cannot survive financially on the income generated by the farm. If the farming operation is unable to support two families there is little prospect of a successful succession plan. (Blackman, 2011).

3.5 Timing and Emotional Security

Getting the timing right with respect to control and ownership and meeting the parents emotional needs is critical to enable a resilient and workable succession plan, a vital element is the timing as to whether the succeeding child is ready and is he a capable farmer? Once control is passed on it will not come back to the parents and a successful succession plan needs to include a legal contract which is flexible enough to take account of a change in personal circumstances and/ or a change in law. The control and ownership is important in term of emotional security for the parents and it is never easy to 'let go' and involves the parents to trusting the succeeding child and his family to carry on the work previously undertaken by his or her parents. (Blackman, 2011).

A successful strategy is a 'living succession plan' and Blackman suggests a company/trust structure as successful where the succeeding child takes over more ownership as he acquires more shares in the company, where the parents enjoy the income from the company and capital from the sale of shares during their lifetime and are able to retire in comfort. (Blackman, 2011). For a successful farm succession plan to occur it needs to start early, with the succeeding child purchasing shares in the farming company over decades, it then becomes possible for the succeeding child and the non-succeeding children to be treated fairly. (Blackman, 2011).

A lot of families have more than one child and for most parents considering fairness amongst the children can become uncomfortable. 'Fair' does not imply 'equal'. Fairness involves making adequate provision for the non-succeeding children and the test is fairness not equality. (Blackman, 2011). The real issue for most farming parents is how to treat their children equitably or justly over time (Baker 2008). Commonly there is some sort of allowance to consent the successor onto the family farm, whereas this may cause tension with non-farming siblings. It is essential that there is enough wealth to provide fair income to the non-farming children, without jeopardising the farm, the successor and the post-farming lifestyle of the parents. Another feature of the succession is that parents retiring have often dedicated all their life to the farm, and have spent little time off farm where they have outside interests and hobbies, and this can be a huge lifestyle adjustment. Don't under estimate the emotional impact on the retiring generation – "leaving the farm can be like losing your leg (Garland, 2010).

3.6 Legal Structure, Communication and Expectations.

It is vital to have the right legal structure upon which to build the succession plan. From the information I have gathered the most effective approach or model is a company/trust structure, which enables a flexible, resilient and a fair succession plan. The parents can enjoy capital payments free of tax during their lifetime to improve their standard of living, and the succeeding child is able to pay full value for the farm without the farm being gifted or devised to him under a will. This allows the non-farming children to receive support from the parents during their lives and a fair share of their parent's estates on their deaths. (Blackman, 2011). "The plan avoids the problem of the succeeding child working on the farm with a personal promise from his parents that he will ultimately own the farm and then finding it doesn't happen." (Blackman, 2011). "It avoids the farm being sold to the succeeding child when the parents are 55 or 60 years of age, with a debt back that can never be repaid." (Blackman, 2011).

An essential part of succession planning is to have open and honest communication with all family members at an early age. This can be extremely challenging for each generation and their expectations towards their work life balance. Each generation including Veterans, Baby boomers, Generation X and Generation Y, all have different expectations and these need to be managed to progress and then implement the farm succession plan. To avoid any assumptions being made, open lines of communication and the significance of holding conversations at a level which all family understand. This is where an independent facilitator can be introduced to the family discussion for both advice and to ensure that conversations are effective and stay on track. One of the most interesting aspects of family life is the way family members can make assumptions about one another over the years and almost never check these assumptions out, which can lead to potential hopes and anticipations being destroyed.

I agree with the research completed by Ian Blackman that you have to satisfy all of the three key objectives to achieve an effective succession plan. This includes

1. Financial and emotional security for the parents
2. A flexible and resilient plan for the succeeding child
3. Fairness to the non-farming children

3.7 Implementing a Plan

An effective plan today is superior to a perfect plan tomorrow. The succession strategy must be able to survive with some changes within reason; agriculture in NZ is a commodities market which is extremely volatile. The plan needs to be realistic and stand the test of time. You need to plan for some variation and occasionally you need to think does the plan have an effective exit strategy if required (Alexander, 2015).

From a business sense succession planning must refer to the arranged transfer of management, responsibility, ownership and control, over time. In a farm business this involves setting up the right business structure and transferring the farm ownership, management, machinery and livestock over time, to support the succession strategy. To implement a successful plan it is critical to start to think about it earlier rather than later and for the entering generation to start to build some off farm assets. This is useful from a risk management point of view and can also make succession planning easier (Wilkinson and Sykes, 2007). Investing in off farm assets can provide wealth creation and it gives the opportunity for settling non farming children/siblings inheritances.

4.0 Method

The chosen method for initially beginning my research was from reviewing the literature. The literature I studied more or less established and reconfirmed my initial thinking. I concentrated on short form articles which were more succinct. I was lucky enough prior to the Kellogg course to listen to Ross Blackman present at a Sheep & Beef workshop in Huntly which was excellent. He was giving away his book and I had begun reading 'Keeping Farming in The Family' by Malcom Evans which turned out to have some real rocks around succession planning. Near the end of my research, I also read a book called 'Think Bigger' by Michael Hill. I was also fortunate enough to have also worked alongside Mandi Mcleod whilst banking, where we completed numerous on farm meetings from a combination of well-established and highly regarded Dairy and Sheep and beef operators. These interviews typically lasted 2 hours and on completion of the process gave me a real appreciation of both the challenges and opportunities available if a strategic succession plan is formed.

From my previous experiences and key learning's, I complemented my review of the published literature involved face to face interviews with a questionnaire (Appendix 1). I consulted with both local rural professionals and dairy farmers to gain respected real life experience in dealing with family succession conversations. The interview questions for farmers enabled me to keep to a structure and get a thoughtful opinion from people on family farm succession, what succession meant to them and the method involved. Then recognising the barriers to identify what material had been helpful in starting the succession process. This approach concentrated on asking open ended questions to develop the conversation and understanding, with interviews lasting 1.5 – 2hours depending on complexity of responses. I wanted to keep close to the questionnaire which had been provided to warrant a fair representation of answers provided from the interviewed participants.

The ten farmers selected for interviews, were from a variety of backgrounds in terms of dairy and sheep and beef operations. This ranged from farmers who were just starting the process to farmers who had completed a successful transfer already. A range of five rural professionals were selected from the rural professions, including those in accounting, banking, legal, farm consultants and specialist succession consultants. Individuals or businesses chosen were well known for their work with farming families throughout the industry and measured as leading experts. Data was reviewed from these discussions to ensure privacy and investigation was carried out across each discussion to find any patterns or comparisons. Understandings from these discussions formed the outcomes and findings in this research report and also provided the differences in approach which people had. These discussions all provided another view and shared a different story which reinforced a lot of my own opinions on succession planning.

In summary, my face to face discussions with my survey applicants provided the most valuable and respected understanding into succession planning and governance within families. The discussions I had with these people considerably influenced my feelings and viewpoints for which I have endeavoured to express during this report.

5.0 Findings and Discussion

It is well recognised that family businesses include additional layers of complication. However when relating them to non-family businesses, it seems they have less obstacles to succession. So then generally why have so many families traditionally over time tumbled apart through an endeavour by a successor to assign valuable assets to the following generation? What are some of the key elements which lead to effective plans and practices being established, and what are some of the fundamental practices and initiatives farming families can adopt to ensure the family farm is passed down to the next generation for long-term success?

5.1 Starting Early

Getting started with early conversations is vital to avoid any assumptions or expectations which members of the family may have. These discussions should start at an early age as young people's interests do change, along with abilities and skill set. A poorly executed plan and approach can often be put together at short notice with damaging effects to family relationships. This is important as succession planning amongst a family is a long-term procedure, hence starting conversations and planning early is feedback from all the people who completed my survey and literature researched. It can make the planning process a lot more efficient without having any time pressures, stresses, or an unexpected health issue, death, or separation arising.

Everyone I interviewed in my surveys had different views about the ideal age a child should usually become involved in a family business. There is no 'one size fits all', and different farming businesses with diverse individual behaviours will have fluctuating opinions as to when that appropriate age/time is. Generally most survey applicants believed strongly in encouraging their children to go off and pursue a career outside of the business and complete their overseas travels, with the opportunity to return home when and if they felt equipped. I consider significant value in this, and can relate to it directly from my own individual experience. In my opinion serious thought needs to be given to this idea, for two important reasons, self-confidence and self-respect.

Self-confidence is a significant part of a person's happiness, and inspiring a child to go off and pursue their own goals and ambitions, may have a substantial impact on their overall long-term happiness. Secondly, inspiring a child to go off and pursue a career outside of the family business will most likely result in the child returning with an extensive outside information which can be extremely helpful by adding to the present wealth of capital within the family business.

"Change does not have to happen immediately, but planning for change does." (Cooney, 2011). Most of the examples farmer and rural professionals have shared have been based on the final outcome being resolved by a catalyst due to unforeseen circumstances. It is important for successful succession to occur to have the children involved in the business at a young age openly interacting about the business. It's essential to have a family culture with strong values and morals; these families seem to have the vital foundations to effective succession, and this needs to be mounted into the child at a young age. Beginning with early conversations is about being proactive and planning for change before it's too late. Once a family business is established, and reaches a level of wealth and scale where it has the ability to involve the next generation of family (presuming this is the chosen outcome), that is the period at which consideration needs to occur around succession planning.

5.2 Viability

While succession planning mainly concentrates on having efficient governance within the family business and productivity, making sure the farming operation remains financially viable should always remain a main factor when planning. Running a profitable business provides options and opportunities for future family members, however there are many contributing factors to ensuring the farming operation is profitable long-term, including debt levels, climatic conditions, pay-out fluctuations, and personal spending. A farming operation which is carrying too high a debt level based on the scale of the operation can be a challenging dilemma to enable a successful transfer of the business onto the next generation. A farming business needs history of running a positive cash flow which can be

sustained for the future and have the adequate debt to equity gearing ratio to ensure an effective transition.

Farming businesses which don't sustain positive cashflows rely on the amount of capital invested in the business. Some farming businesses are asset rich and cashflow poor. The sale of the asset is based on the current market value at the time, which often involves getting a registered valuation from an independent person. This is to ensure when valuing the business asset that the process is transparent and clear, and then all family members can settle on a value. The valuation reflects what the business is worth now, not in the past or the future. It is a guide based on fact and not feeling (McLeod & Dooley, 2012). Asset values in relation to earning potential is measured as an important factor from both generations. A few successors would be able to pay market value for the asset outright, challenging the fair and equal concept for other siblings within the family (McLeod & Dooley, 2012).

5.3 Communication and Engagement

Communication is hard work but the rewards of getting it right far outweigh the consequences of getting it wrong." (McLeod, Family Business Continuance: A Global Perspective, 2009).

To put together an effective succession plan, healthy communication is one of the most critical parts in the process and this often involves being a good listener. Often opinions will vary amongst the family particularly when emotions are involved. Effective communication can be challenging in these times amongst loved ones.

Emotion is a significant consideration in any family discussion, especially around succession planning. "People are creatures of emotion, not logic. Everyone brings emotion to the table; the key is working out how you deal with it." (Bowie, 2015). Often conflict can arise amongst some family, who may have different values, wants and expectations and interests of the family business, which often comes from passion they have with the farm and it doesn't have to be negative. Having some boundaries and meeting rules put in place will help ensure the communication is effective and remains on path.

"Communication is the exchange of information between individuals – information that can be exchanged in a variety of ways; written, verbal, body language, gestures, drawings, signals, art, literature, etc. It is so ingrained in who we are as humans that it takes a conscious effort to NOT communicate at all. Effective communication is non-judgmental. It's important the message and its implications are fully understood by both parties, as approximately 75% of communication is non-verbal. It is essential to ensure that what you intend to say is what is understood.

Discussions can often be made based on assumptions or perceptions which can lead to a misunderstanding which lead to potential conflict amongst family. When family members have to discuss private and underlying pieces of life that don't come up in everyday conversations this can make it feel uncomfortable. One of the main problems is the misapprehension that effective communication has taken place and everyone has agreed. It's hardly surprising then that poor and ineffective communication in family businesses rates as the main cause of ineffective transfer of the family business between generations with 60% of failed transfers attributed to this (McLeod, 2009).

Barriers to communication between generations as indicated by Kaplan *et al* (2008) are:

- Avoidance of raising perceived uncomfortable issues
- Assuming everyone has the same expectations and understanding about the future
- Resistance to change
- Fear of the unknown
- Desire to avoid conflict
- Uncertainty about individual family member's plans for the future
- Established family decision making patterns
- Facing up to the reality of growing older and passing on control
- Avoidance of having to make difficult decisions about the distribution of assets

It takes commitment and good will from each family member to choose to communicate effectively. It is why an external facilitator or chair is often recommended to help with the communication process and can draw on the above points.

It is important to have an independent or external party involved to help facilitate during the process, and ask the challenging questions. All family members need to commit to an agreed process for a successful outcome long term.

5.4 Fair and Equal

A common expression frequently mentioned on the topic of family succession planning is 'acting in a way in which is fair and equal,' and what is decided as 'fair does not necessarily mean equal.' Equality can be defined as 'the state of being equal, especially in status, rights, or opportunities' (Google, 2017). To differentiate between the terms equality and equal - equal means the same amount, equality means a fair and impartial amount. Generally speaking if the fundamental goal of the succession plan within a family business is for one of the successors to retain the family business, then in the majority of situations it can be near impossible for it to be equal when there are two or more children involved. Particularly when valuing the involvement of a son or daughter who has been previously working on the farm before any succession plans were discussed. They may have given extra time, reduced their living standards and income, both added value to the farm or conserved the wealth of the family business and as such, would like consideration for the economic associated return of this period. Sometimes the only likely way for it to be equal, is to sell the farming asset and divide the proceeds equally amongst siblings, and this needs to be achieved correctly so it can be fair. To overcome this hurdle it is essential to engage in early communication amongst the family, so that everyone can agree on the terms and an action plans are prepared.

5.5 Governance and Structures

"Effective governance is the responsibility of every business owner and the principles and disciplines of governance can be applied to any business." (Google Dairy NZ, 2017). "The ability to respond to change proactively and to make good decisions in the face of increasing complexity and challenges is vital. Adopting good governance practices helps meet and handle those challenges." (Google Dairy NZ, 2017).

The first step towards effective governance amongst a family business is to distinguish the ownership and management of the business, and the different ways family members are involved. It became evident when undertaking my research that by having discipline and rules in place lead to tasks being

achieved in a successful manner amongst families, and in my opinion governance strongly interrelates with discipline. Effective discipline can make it an easier and calmer process within families to maneuver through some of the barriers faced, and ensures that relationships aren't threatened. Effective governance requires various disciplines amongst family members involved, referred to below;

- Effective communication – formal or informal setting, and how regular the meetings should occur?
- Define certain roles – each individual within the business has a clearly defined role.
- Have individuals accountable amongst the business for their specific roles.
- Keep the family and business time separate, along with the operational side and business from the asset

In my opinion it's important to have a type of structure where individuals who work within the business are rewarded fairly for their time and input. This is just as critical a solution for other family siblings who may not be involved in the day to day running of the farm. "Keeping the roles of family members, management and owner distinct is vital to the success of both the family and the business, and is what governance in a family business is all about." (McLeod M., Farm Ownership & Transition Workshop Resource Book. 2014).

Often for effective governance to occur external involvement is required, such as discussion involving independent professionals such as accountant, lawyer and bank manager. It's vital to ensure all interested parties who are involved agree and support the legal structure proposed, then a suitable legal structure can be formalised. Firstly consider why the legal structure was set up this way in the first instance, traditionally I have seen many family trusts set up, which protects assets and provides tax benefits, not always necessarily the most efficient structure for wealth creation, wealth distribution and transfer. The most common business structure which is seen around the world for transfer of wealth from one generation to the next and between siblings is the company structure (Lockhart, 2015).

6.0 Conclusions

The family farm takes pride of place in the heart of many farming families and the process of family succession is often complex and challenging. It is often referred to the 'Elephant in the Room' and put into the too hard basket for a number of reasons; financial viability as poor communication, family members having different expectations, poorly established succession plans, which can all lead to tension amongst families and relationships.

"A lack of transparency and ineffective communication between family members are cited among the main causes of conflict and failed management transfers." (McLeod M., Farm Ownership & Transition Workshop Resource Book. 2014).

Family succession dynamics have changed considerably amongst farming families over generations. There was very little regard given towards fairness and equality during an era where common practice within the family was to gift the farm onto the eldest son without any consideration or thought towards the other siblings. In my opinion family succession planning begins with family values first and foremost. These values need to be instilled into children from a young age, with a supportive family culture where successes are celebrated. This can create inspiration and high values set amongst the family, leading to character building trust and a strong family identity which everyone can be proud of.

I believe the general view of succession is 'the transferring of assets' or 'the transferring of wealth'. Family succession in my opinion based on my research, should be viewed as the 'Creation of an Intergenerational Family Business'. (Dylan Barrett from Tauranga). There becomes an exciting opportunity to leverage off the families wealth they have created and create further investment, growth and employment opportunities within the family along with longevity and future prosperity.

7.0 Recommendations

When considering implementing a successful succession plan, in my opinion the top three recommendations to consider are:

1. **Start Early** – This is the most important part of a successful succession plan, and it's never too early to start! The conversations should begin at an early age and continue over the years. People's interests and capabilities change over time; therefore by starting early you avoid making assumptions which can turn into expectations. It's important to give praise and acknowledgement during succession planning which can go a long way to building stronger relationships and credibility amongst family members.

By leaving a plan to be devised to the last minute, can result in a poorly executed plan and become detrimental on family relationships, particularly when there is not a viable option. The earlier it is addressed, the better chance it will have of there being a smooth and pleasant transition as opposed to a tense process with poorly executed outcomes.

As the family matures start including them into planning and business meetings, to help them develop their skill set and it teaches them good governance practises and business discipline's. "Change does not have to happen immediately, but planning for change does." (Cooney, 2011).

2. **Open Communication** – Encourage this amongst the entire family and involve independent advisors such as accountants, bank manager, lawyers and or an independent farm succession facilitator. This is essential when discussing advice around ownership and management structures, particularly around governance procedures and co-ordinating roles. In my opinion it is installing the discipline and rules within the family business that can lead to success. Certain discipline can be around communication over different business matters and how to separate family business meetings to quality family time.
3. **Document Everything**. Form a business plan which includes family value statements, business goals, timeframes, define all family members' roles and responsibilities, update wills, and record the minutes from every meeting. It is also essential to set expectations and when to review the plan, to hold individuals accountable. These should be a structured and formal process with meeting agendas circulated prior to the actual meeting, with follow up and expectations set to ensure everyone is on track. This signifies the importance of the conversations that have taken place and a plan formulated.

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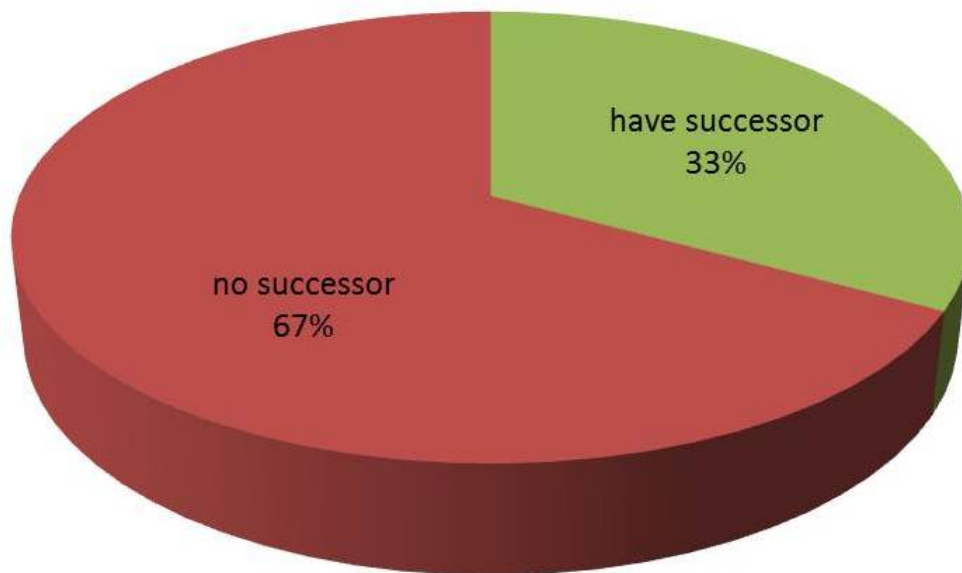
9.0 Appendix 1

Survey Questions

1. How would you define the process of 'Family Succession Planning'?
2. How significant is the succession of the 'Family Farm to you and your family'?
3. Explain the process of communication; has this been successful within your business, particularly around early engagement and setting expectations?
4. At what stage did you start thinking about 'Family Succession' and who was involved in the initial discussions?
5. How far ahead are you with the process of 'Family Succession' within your business?
6. How would you explain 'Family Governance' and have you implemented some successful practices within your business?
7. What are some of the successful 'Governance' practices that you have seen implemented within the Agriculture Industry, particularly in a corporate company with lots people involved?
8. What are some of the successful legal structures you have seen or recommend from your experience?
9. Do you use independent advisers? If so who are your advisors and how long and have they been involved supporting the business?
10. What are some of the benefits independent advisors provide?
11. How do you address 'fairness and equality'?
12. Explain who carries out certain roles and responsibilities within the family business, whether it working within or outside the farming operation and are there areas to improve?
13. Do have feel you have a successful work life balance and how important is this to the Agriculture Industry?
14. In your opinion list the most important elements which need to be addressed to implement a successful 'Succession Plan"
15. Are there any final comments or suggestions you would recommend relevant with the process of 'Succession Planning'?

Farm succession

Farmers who look for a successor are 50 years of older



Average statistics from CBS Landbouwtelling, 2012 (NL) and Statistisches Bundesamt, 2011 (DE)

Appendix 3: Checklist on Family Succession (Mcleod 2014)

Checklist

To help you start your journey, this checklist helps you determine where you should start and what you may require in the way of resources.

Think about what timeframe you need to start distancing yourself from daily activities; who might take over the

family business and when this process should start. It will also help you determine who should be involved, where and when. It is recommended spouses and partners of your children are involved as they play an important role in the lives and decision making of your family.

	Notes	Resources	Timeframe for completion
Retirement Plan	<p>What is your total current expenditure?</p> <p>How much income do you need to support your desired lifestyle?</p> <p>When and over what timeframe do you plan to distance yourself from the business?</p>	<p>Historical budgets</p> <p>Statement of current expenditure and what it includes</p> <p>Lifestyle wish list</p>	
Successor Identification and assessment	<p>Have you identified a successor/s?</p> <p>Has he/she agreed to be so?</p> <p>Do they have the right skills, knowledge and attitude? Can they learn?</p>	<p>Vision for the business</p> <p>Skills and knowledge for business growth</p> <p>Position description</p> <p>Skills and training assessments</p>	
Viability assessment	<p>Is the business viable or can it be?</p> <p>Can it support the income required by the successor in addition to the owners?</p>	<p>Financial accounts</p> <p>Equity position</p> <p>Asset valuation</p> <p>RoI/roc</p>	
Documents	<p>Are all the business and personal documents in a known safe place?</p> <p>Are they up to date and will they achieve the desired outcomes?</p>	<p>Wills</p> <p>Power of attorney/ enduring care</p> <p>Loan documents</p> <p>Insurance documents</p> <p>Company/partnership agreements</p> <p>Guardianship</p> <p>Other legal</p>	
Stakeholders	<p>Family</p> <p>Professional</p> <p>Key management</p>	<p>Business meeting skills</p> <p>Role identification</p> <p>Communication and conflict resolution</p> <p>Decision making process</p>	
Contingency	<p>Are you prepared for:</p> <p>Death</p> <p>Divorce</p> <p>Disability</p> <p>Disaster</p> <p>Dispersal of assets</p>		

Family business meeting framework/guidelines

- Set time, date and place
- Send out a written agenda and stick to it. Don't fall back into production-related conversations
- Appoint a facilitator with good decision-making and communication skills, diplomacy and the ability to deal with conflict effectively. If there is no one in the business, consider using an outside professional
- Set ground rules for acceptable behaviour, language etc. to ensure a safe place for open dialogue
- Understand each meeting participant's expectations, needs, wants and fears as it relates to the family business. These should be known and understood by all, as they may influence the decision-making process
- Appoint a secretary to take notes and circulate, to keep everyone informed and record what was discussed and agreed
- Family members commit to the process and report back to the facilitator progress on any tasks they are required to do as a result of the meeting
- Consider using a "talking stick" so people can speak without interruption



(McLeod, 2014)

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