Identifying Innovative Approaches to Succession Planning to Retain the Family Farm

Paul Duynhoven

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paul@auctus.co.nz

021 420855

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1.0 Executive summary

There are too many horror stories out there where family farms have been sold unnecessarily because the succession process becomes too hard. The objective of this project was to find non-standard or innovative ways that people had managed to achieve succession on the family farm and to try to identify common themes or methods that enabled that succession to occur. To get a deeper understanding of this over 20 interviews were completed with farmers and professionals on innovative succession plans they'd been involved with or done.

There are many ways succession can be carried out successfully. From the literature review and interviews, the succession process is a journey which requires flexibility and resilience. There are three key building blocks for a viable succession plan. The parents' needs are met, there is fairness amongst all children (succeeding and non-succeeding) and there is a business that has long-term viability for the succeeding generation to buy. The key findings were the re-occurring themes that came through from interviews. This is that there are three succession "pillars" which, when added to the key building blocks, can enable innovative solutions. These pillars are communication, clarity and capability. When there is a desire and vision to have an inter-generational business and there is good communication, clarity and capability, over time a family business can progress to where a viable succession plan which has the three building blocks can be enacted.

Recommendations from the findings are as follows:

-Start early. Succession is a journey and the transition of the business assets may take ten or more years. Starting early and thinking about potential future succession will have a positive influence on the business. Setting a framework, working to incorporate skills and having the right structures in place will be hugely beneficial when it is appropriate to start a more formalised and structured succession plan.

-Practice open communication. Where open communication that is respectful is part of everyday life, everyone is aware and informed of the process and knows what is going on.

-Establish clear values. When it is clear how the parents and other family members would like things to be, then common ground can be found. What people want out of life and answering the 'why' is key.

-Have clarity of vision. Being clear on the vision for the business and what you are trying to achieve allows everyone involved to commit towards a common goal. The vision may change but having a goal in mind is crucial as it sets the tone and direction of the business.

-Have a clear structure that is fit for purpose. Everyone involved in the succession process needs to understand the ownership structure of the business. It must be fit for purpose in carrying out the succession plan and have flexibility to accommodate any changes in family needs while transferring ownership to the children.

-Build up the capability in the business. The skills needed for operations and management, finances and strategic planning need to be identified. Plans need to be put in place to develop those skills within the business or to fill them with third parties. Having strategic capability and working on the business will help drive performance.

-Engage quality professionals to assist in the succession process. Professionals can get the ball rolling and help formulate the appropriate succession plans for farming families. They can help navigate families through the process and assist in monitoring and tweaking the plan, so it meets the families' needs.

-Have an open mind. Having an open mind to opportunities and the ability to critically evaluate them is a valuable skill.

2.0 Acknowledgements

I wish to acknowledge my fellow Kellogg 39 cohort. You are all amazing people and will continue to make outstanding contributions to agriculture in New Zealand in many different capacities for many years to come.

To my family. Thank you for your love and support over a big twelve months and especially over the last six months while I have completed the Kellogg programme. To my friends and associates who pushed me to apply for the Kellogg programme. In some way you have undoubtably shaped my future. To Steve and Siobhan Mundy and the team I work with at Auctus Advisory. Thank you for allowing me the time to complete the course and for filling the gaps while I have been away.

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I am immensely grateful to the interviewees who generously gave up their time and expertise. I learned a lot about how things can work or not work in practice and the fundamentals as to what you need in order to make succession planning work. The honesty and frankness you shared in your interviews provided a lot of valuable information and insight. Many thanks for suggesting other people to contact and for providing various pieces of resources and learnings. I wish you all every success in your future endeavours. Your advice and experiences will hold me in good stead for the succession discussions within my own family and professionally with clients and their succession journeys.

I also wish to thank the Kellogg Programme investing partners for their continued support:

3.0 Introduction

Family farming businesses form the backbone of rural New Zealand. "*Family and farming are two of the most fundamental building blocks here on planet earth. Family is what shapes our society and farming provides society with the nutrients to survive. Neither comes easy and both require a huge amount of passion and dedication to thrive. When we combine family, and farming together double the amount of passion and dedication is needed. This can lead to immense success or high levels of conflict.*" (Craw, A. 2017). Often a family's heritage, wealth, business and personal relationships all meet in one point. These dynamics can make running the business itself tricky, let alone creating a succession plan that meets everyone's needs achievable.

Farm succession is a potentially difficult topic to bring up within families. There are numerous horror stories out there of when it has gone wrong or hasn't happened and the ensuing conflict and destruction of family relationships. Personally, I am part of a farming family that wants to retain a farm that my brother is the fourth generation to have farmed. Professionally, as an accountant it is important to me that I can assist clients in more than just compliance. Succession is an important topic that needs to be done well and handled with care by any professionals who help families with this process.

This project aims to find out what alternative options are out there to achieve succession and retain ownership and management of the family farm within the family. I have excluded the study of the retention of the family farm when there are no family members willing to continue farming. To me this becomes more of a study of investment decisions.

My belief is that in some instances the process of succession becomes too hard and family farms end up being sold unnecessarily. The purpose of this research is to find innovative approaches that people have used in succession planning that have ultimately meant that the family farm has been retained by the family. Ideally the findings of this research will be tools or models that will be able to be used by professionals and facilitators to assist in enabling the succession process. Being able to consider incorporating some innovation will give families more options to allow succession process to take place rather than the farm being sold as a last resort.

4.0 Research methodology

4.1 Introduction

To gain insights into succession innovation interviews were completed with members of farming families, consultants, lawyers, accountants, and bankers. Questions were asked as to how those families have gone through succession planning. What they did, how they structured their businesses and operations to allow for the succession transition to happen and what elements of that were innovative. My hypothesis is that innovative succession plans will have common themes in terms of the types of businesses that people got into or the use of particular structures or models for the succession progress that would address some of the elements that make succession tricky.

4.2 Sample

A range of interviewees were found from across the rural sector. Farmers were targeted through knowledge from existing networks and also from suggestions from industry contracts. Professionals were contracted based on industry involvement (often with lengthy periods of service and experience) and in the case of consultants, for their involvement in offering succession planning services. My initial target was to have 25 interviews split evenly across farmers, consultants, lawyers, accountants and bankers. I ended up undertaking 22 interviews with six farmers, seven consultants, six lawyers and the balance being accountants and bankers.

4.3 Interview format

The interviews were primarily conducted over the phone. The majority of interviews lasted between 25 and 60 minutes following a set question format. Deviation was allowed for in certain instances where insight could be gained from additional questions or following a line of thinking. Ultimately the aim of this research was to find the what and the how of the innovation within the succession plans in order to draw out themes and identify models to add to the succession toolbox.

4.4 Analysis

The qualitative research tool of Thematic Analysis was applied to the recorded interview transcripts in order to analyse the interview content by question. From this data themes and patterns were searched for in order to classify the findings. Using a qualitative study has allowed me to gain a more thorough understanding of the topic and the views of the interviewees. However, this is not representative of the agricultural community as a whole and their experiences with succession. In essence this research project has been to a degree about hunting unicorns (innovative approaches) and trying to find out where they live (the what, how, where and why).

5.0 Literature review

Succession is a topic which has been identified as a long-standing challenge for agriculture. A number of intelligent people have looked at the topic in some depth. This includes previous Kellogg reports based on varying aspects of succession. The view of (Sclater, C. 2017) that family succession should be viewed as the creation of an intergenerational family business is a sound definition. It becomes particularly aspirational when you combine it with the potential it provides as "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." (Sclater, C. 2017).

5.1 Building blocks

Family farming businesses have been in existence for long periods of time. However, we are long past the tradition of primogeniture, where the oldest son inherits the farm and the other siblings are excluded. "Family businesses are by nature complex, dynamic and often a paradox unto themselves as they try to balance the needs of individuals, family and business" (McLeod, M. 2018). Due to this there are some complexities in the management of family businesses and any subsequent succession plans.

Previous research and thinking on succession planning has identified some key areas that need to be addressed to enable a successful succession plan. In a somewhat prickly subject, we are dealing with the same old thorns. The issues aren't new.

"*There are three universal dilemmas that every farm family for whom farm succession is a goal must resolve. How families balance the resolution of these dilemmas will depend on the characteristics of both the family and the farm business. How well they balance the resolution will determine the success of their ultimate succession. The three factors that constitute this balancing act are:*

-retaining an adequate retirement income,
-being fair to all the children,
-managing succession so that the successors and the farm business are not burdened with debt."
(Little, H. & Taylor, N. 1998).

These factors are repeated by Ian Blackman in his book 'Keeping Farming in the Family. A Guide to Farm Succession' as the common objectives for every succession plan prioritized as:

"*1. Financial and emotional security for the parents: To ensure that the parents' financial position is absolutely secure and their emotional sense of doing what is right is satisfied.*

2. A flexible and resilient plan for the succeeding child: To ensure that the land and buildings and the farming operation transfers smoothly and properly to the succeeding child and to create a business that has long-term viability. Such a plan also needs to survive each of the generations.

3.Fairness to the non-succeeding children: To ensure that the non-succeeding children receive a fair share of their parents' inheritance". (Blackman, I R. 2011). These findings also formed part of the Kellogg reports' of (Nelson, N. 2016) and (Sclater, C. 2017).

Looking at these key factors at the current time:

-The amount needed to comfortably retire is currently estimated to be a mortgage free house plus $785,000 in a major city and $494,000 in a provincial town (Parker, T. 2019). This is combined with an increase in average house price between 2007 and 2019 of $285,000 from $410,000 to $695,000 (Webb-Liddell, A. 2019). This means that the funds required for the retiring generation to live comfortably are significant and have risen.

-Having equity and/or equality between siblings is also often seen as critical in a modern context. This can be particularly hard when there are a number of children in the family.

-The scale of rural land values and rural debt in farming businesses have ballooned in tandem. Rural land values have increased over 10 years across all farm types on average 54% in 2015 to $27,300 according to real estate institute data (ANZ Research, 2015) and agricultural sector bank debt increasing from $16.6B in 2002 (Gaynor, B. 2012) to $61.9B in November 2018 according to the Reserve Bank Statistics (Reserve Bank, 2018). Subsequently values of lower quality and less well located properties values have fallen 10-15% from 2014/15 values (ANZ Research, 2018).

Ultimately the three key factors from Little and Taylor's 1998 report are still essential now and have become more challenging to achieve due to rising retirement costs, increased expectations, significantly higher bank debt and heightened land prices.

5.2 Communication and relationships

Communication and relationships can be a key component of making the succession process work. Previous Kellogg reports identified communication as being important to the process with (Nelson, N. 2016) focussing on the role that communication has in starting the succession plan process, (Sclater, C. 2017) identifying it as a key component of positive succession planning and governance, and (Barrett, D. 2016) rating communication (including listening) as one of the most critical processes in establishing a successful succession plan.

Annabel Craw investigated the challenge to relationships of bringing non-farm members into the farming business 'Joining the family – Attributes to support integration into the family farming business'. Recognising all the contributions of the people involved in the family farming business is important to a harmonious succession process. (Froese, E. & McKenzie, M. 2014) have written a book on the topic of in-laws on the family farm. Successfully integrating in-laws into the farming business can developing sound relationships and communication is essential to family harmony. Where in-laws are not treated with respect and excluded then this can lead to conflict. Conflict can be expensive due to poor communication and muddled decision making. "Financial loss can be more drastic when the family farm is forced to divide, go bankrupt, or sell, due to a breakdown in working relationships or after years of mismanagement. Family conflict can cut short the legacy of the farm." (Froese, E & McKenzie M. 2014). Their book details a number of different scenarios and includes a toolbox of techniques which can be used and applied and also some strategies for how to negotiate through different scenarios when things aren't working out.

"Most family business experts say that the critical issues facing family business enterprises are people issues, more so than business issues……It is "people power" that determines the success of a business. Similarly, it is the failure to address the people dimension and family dynamics that has proved to be a major hurdle in achieving success in many succession processes! – Owen Cooney." (Craw, A. 2017).

5.3 Wills are not an adequate vehicle for succession planning

Wills' should not form the basis of a succession plan. This is one of the of the key messages from Ian Blackman's book on farm succession (Blackman, I. 2011). Don't wait for the grim reaper and think that everything will be sorted out by keeping things fair in the will! Multiple issues are raised when a partner dies in a traditional partnership structure. This includes unintended tax consequences on transfer/sale of assets as the death of a partner dissolves the partnership and requires assets and livestock to be sold/transferred at market values. Wills are not equipped nor designed to facilitate the retention or systematic transfer of assets. The executors of the will are legal obliged to carry out the terms of the will regardless of whether this is ‘fair’ or the best result for the family.

Wills are able to be challenged in court if one or more of the beneficiaries believe that the wills were unfair and that they hadn’t been adequately provided for. Talbot v Talbot (2016) NZHC 2832 is one case that went through the High Court to the Court of Appeal in 2017 where one of the daughters was unhappy with the allocation of her parent’s estates after their deaths (Theunissen, M. 2017). Another case that hit the headlines recently was the Walker case from South Otago where one of four daughters challenged her parent’s will despite being well provided for. “Their late parents, William (Bill) Walker and his wife Dorothy wanted equality between their four daughters, …, even if that meant an unequal distribution in their wills.” (McNeilly, H. 2019). The last thing the parents would have even wanted is for a succession dispute to hit the news after their deaths. To avoid this succession planning needs to be carried out well in advance of the parents retiring or at least a restructure of assets so that significant business assets are not held in a partnership structure or in any form that will require them to be distributed after death from an estate.

5.4 What is the state of play

(Nuthall, P. & Old, K. 2014) completed an extensive survey of farmers on the topic of succession and governance. The survey has revealed a large body of information about succession practices and plans on NZ farms. A wealth of associated information was also obtained which can be used for detailed analysis of the data which will help to explain the approaches used by the farmers. Such studies are can help to better understand succession and governance as well as the impact of experience factors, and other important variables such as farm profitability, on succession and governance systems. Most farmers state they intend passing their assets to the next generation in contrast to alternative beneficiaries. However, only 68% of farmers have yet to transfer any assets to their chosen heirs/successors. “For succession, the majority of farmers have made only minimal plans even well into their farming life. This is in part due to most ownership structures involving trusts, partnerships with some private companies.” (Nuthall, P. & Old, K. 2014).

It is clear farm governance still largely resides with the owner operator of the farms with more sophisticated systems yet to emerge in any great numbers. The use of formal boards and advisory committees is minimal. It is also clear that ownership and profit-sharing systems are very much the preserve of partnership arrangements. This does not mean other arrangements are not in existence but were yet to become dominant systems at the time of the report. The Nuthall and Old felt that it would probably take several generations with increasing farm sizes and values for companies to become more common. 14.5% of survey respondents held assets in limited liability company structures so they are not uncommon within the confines of family businesses. Trusts were more widely used with 47% using a trust to some extent to hold assets. It is also clear succession systems in place and planned are largely relatively simple compared with some of the recommendations (see, for example, Blackman, 2011).

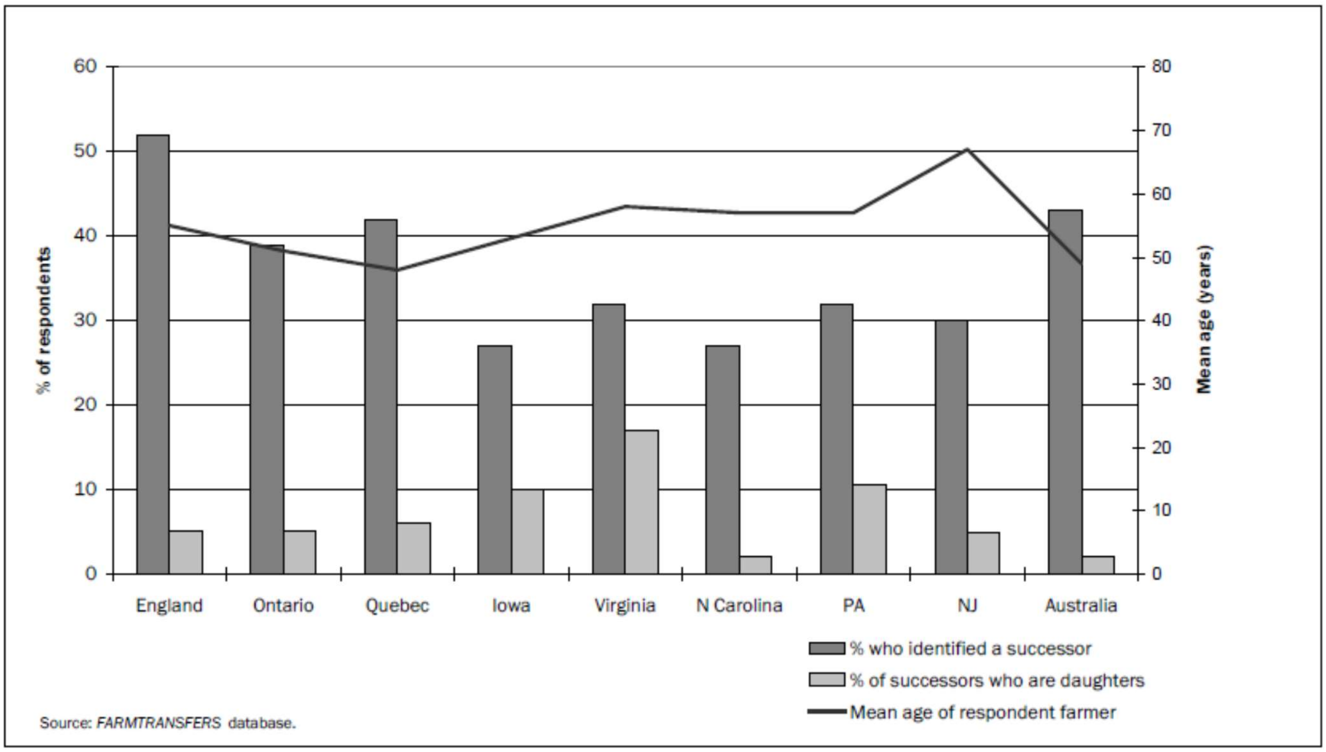
Nuthall and Old also looked at the number of children of the farmers surveyed.

“*The average number of children for 26 to 35 year old farmers is 1.47 ranging up to farmers over 65 having an average family size of 2.38 children. When the net assets are divided by the number of children a significant proportion of farms could provide the children with a reasonable income. This situation also probably impacts on the slowness of the responding farmers to arrange succession.*” (Nuthall, P. & Old, K. 2014).

The inference being that the larger the number of children, then the more challenging it is for a retiring farmer to treat a successor and non-succeeding children fairly. The proportion of farm assets held by older farmers is very high with most not worrying about succession plans until late in life.

Internationally there is also a large proportion of farmers with no identified successor to their business. A study that covered England, two Canadian states, five states from the United States of America and Australia found that only in England more than 50% of farmers had identified a successor (Lobbley, Baker & Whitehead. 2010). Their study concluded that three areas needing attention were measures to increase the likelihood of successor by way of a successor motivated to take over the reins of the business, measures to improve the early identification of and discussions with a successor(s) and a development plan to help them take over the reins of the business and measures designed to reduce the apparent barriers to retirement.

Figure 1. Identification of a Successor Some International Comparisons. (Lobbley, Baker & Whitehead. 2010).



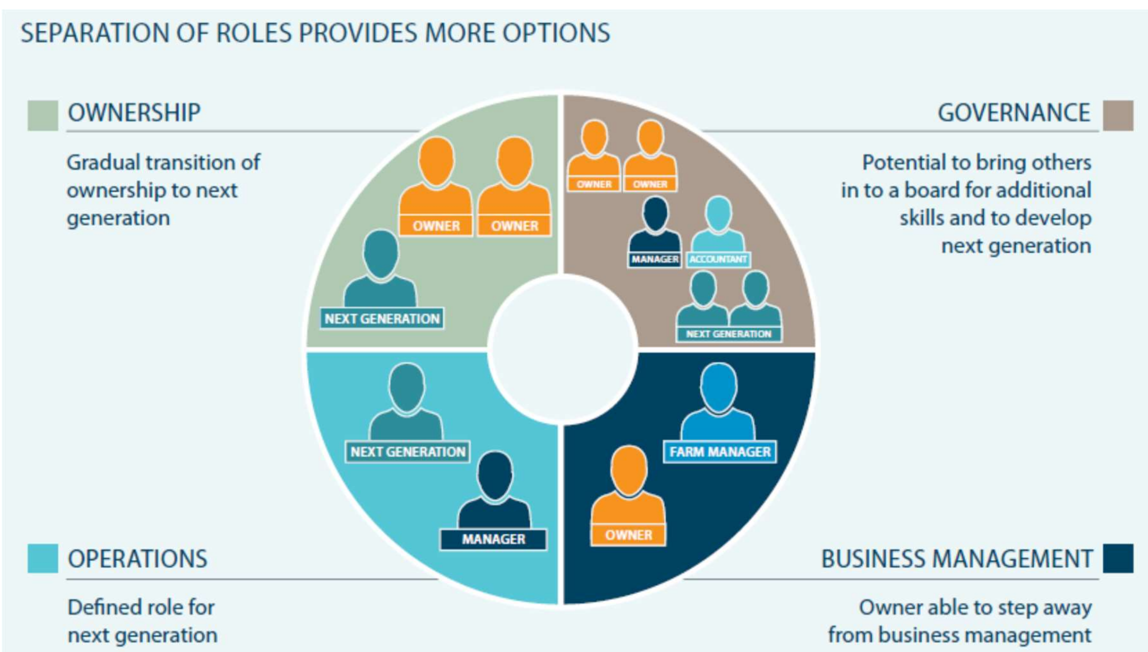
5.5 Further points

5.5.1 Challenge of transitioning under a traditional farming model

From the ANZ resource on succession (Sclater C. 2017) highlighted the differences between the traditional farming model of Figure 2 and a more separated approach at Figure 3. In a typical model "there are 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" (Sclater C. 2017). A more structured model Figure 2 allows for the separation of roles of day to day operations, management, ownership and governance. "*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*." (Sclater C. 2017).

Figure 2. – A Typical Model for Many Farms & Businesses – From Passing the Baton ANZ Limited (2012).

Figure 3. – Separation of Roles Provides More Options – From Passing the Baton ANZ Limited (2012).



5.5.2 Start early

A number of lawyers, accountants and consultants suggest that the succession process should be started early. This is also one of the key findings from previous Kellogg research projects on the topic of succession (Hayden, P. 2016) and (Sclater, C. 2017). Succession planning amongst a family is ideally a long-term procedure. Hence when conversations and planning are started early without time pressures then there is the best chance of success. “Succession planning is far more effective if it is addressed earlier on rather than under unforeseen circumstances such as a sudden death or health issues within the family” (Barrett, D. 2016). There is no ideal or set time as to when it is best to start involving children in the family business. Different farming businesses and people with diverse opinions will come to varying conclusions as to when the right or appropriate time to include a child in the business will be. Creating a family culture with strong values and morals needs to be instilled into children early on. Having early conversations is about being proactive and planning for change before it’s too late.

5.5.3 Fair and equal

Fair and equal and the implications of this was discussed by Dylan Barrett in the findings to his Kellogg report. When considering the phrase ‘acting in a manner which is fair and with equality’, it is important to distinguish between the word’s equality and equal. Equal means the same amount, equality means a fair and impartial amount. “The underlying reality of succession planning within family businesses is that if it is the wish of the successor to retain the family business within the family, then it will in most cases be impossible to be equal when two or more children are born into the family” (Barrett, D. 2016). To be purely equal would only truly be possible if all the assets were to be sold and for each child to be given an equal amount of cash. Ian Blackman also believes that fair does not always mean equal. Particularly when it comes to farms and succession, when there is a desire for one of the family to continue to farm on the farm it is impossible for everything to be completely equal for all the children. “In order for an intergenerational family business to be established successfully, families need to face the reality that outcomes may not always be equal, but if managed correctly then they can always be fair” (Barrett, D. 2016). With effective communication and transparency within the family the obstacle of things not necessarily being purely equal can be overcome.

6.0 Current structural options

A number of structures to achieve succession are common in agriculture. These are easier to see in the dairy industry and some of these methods are also often applied in the red meat sector. These paths ideally conclude with the next generation having full ownership and control/governance of all the original farm assets.

6.1 Contract-milking/share-milking

In the dairy industry contract milking and share-milking allows young farmers to enter the industry and grow their businesses and equity over time. This can be done on third party farms or on the home farm/s. Often the parents will act as guarantors to loans allowing the children to borrow to buy a herd of cows sooner and progress faster. A successful share-milking business then generates cashflow allowing the transfer of land, either as a one-off sale or via the purchase of shares in a company that holds the farm asset/s over time. The point that the parents want to step away from day-to-day operations of the farm is often when one or more of the children will come home to run the family business in many cases as contract-milkers or share-milkers. Generally, these children will have been working for other farmers or off-farm in the rural industry roles such as banking, agronomy or as sales representatives.

6.2 Leases

Leases allows for a farming business to receive a greater share of farm revenue. In dairy farming businesses this is an alternative to 50:50 share-milking, which, provided there is good profitability, allows for equity growth. This can lead to enough capital accumulated earlier to allow the children's business to fund the outright purchase of the farm. In the red meat sector, leases to operational businesses that own the plant and stock can achieve similar outcomes to share-milking in that revenue is shared between the parents and the succeeding children. Where the stock and plant are fully owned by the children then the land asset can be leased to them allowing them more freedom to manage operations as they best see fit. Progression can also be achieved via leasing from third parties and steadily scaling up the business by moving to bigger leases or taking on additional leased land.

6.3 Plant and stock partnerships

In the red meat sector partnerships can be operated when the plant and livestock are run in a different entity to the entity that owns the land. This can be done on the home farm or on third party land allowing children to grow equity. In a company structure, shareholdings can be increased over time allowing the children to eventually own 100% of the shares in the operational company. Beef and Lamb NZ resources show the plant and stock partnership/transfer as one way to achieve succession in the red meat sector.

6.4 Equity partnerships/farming companies

In this structure all of the farm assets are pooled into one entity. Ownership is usually by way of shares in the company which are ordinarily allocated based on the capital brought in. Working parties are then usually paid market value for their efforts. Ian Blackman is in favour of all farm assets being sold into a company with succeeding child buying further shares from the parents or the parents trust over time at market rate from income (salary, dividend or other sources). Often succeeding children will progressively buy their parents shares to ultimately end up with majority ownership and control of the company. Equity partnerships can also be used to buy additional farms. The parents and children will pool resources to buy an additional farm while the home farm is retained by the parents. Entities can be standard Limited Liability Companies or Limited Partnerships or traditional partnerships. As Limited Partnerships have shareholdings this type of entity also allows for changes in ownership percentage – however Limited Partnerships do have a particular set of rules so are not as straight forward as Limited Companies. Traditional partnerships are required to be dissolved if major changes occur such as the death of a partner.

6.5 Mix and match combinations

Within these frame works it is possible to have interposed businesses and structures. In the dairy industry the children's business may contract milk or share-milk for equity partnerships or family companies. Profit shares can also be arranged for certain areas of the business or by other means. Within these frameworks many tweaks can be made to suit the particular needs of the families involved.

7.0 Research findings

It is important that the building blocks of financial security for the parents, relative fairness for the next generation and a viable business are in place to form the basis of a successful succession plan. If they aren't then achieving anything will be hard or somewhere there will need to be some major concessions. Nothing from the interviews that I did contradicts that these factors aren't important to the succession process.

What I found in looking for innovative approaches is that three further pillars of communication, clarity and capability can be added to the building blocks of succession planning. It is important to keep in mind that succession planning is seen a journey rather than an event. In this context when you add in the factors of communication, clarity and capability there is an increased chance of success. These three pillars further enhance family businesses and the succession process. It appears that when they are present in the family business then innovation can be adopted as part of good business practice. This allows for opportunities to be identified and maximised. Where the right framework has been created with clear communication, clarity of vision and structure and the right mix of capabilities in place then some awesome success stories can emerge.

Unfortunately, innovation alone is not a substitute for poor business performance nor can it magic away large bank debt. However, in certain circumstances innovative practices, ideas and agreements can be used to either address poor business performance or allow a viable business to be split out. This may lead the family to the point where succession of the business becomes possible.

7.1 Succession planning journey

Succession planning is a journey rather than a destination. It is something that can evolve over time. When it is done well the plan is regularly checked and where necessary revised to ensure it is meeting both the parents and children's needs. 83% of the farmer interviews noted that it was a long-term process, and this was also very evident in the interviews with the consultants.

Ideally a succession plan is a moving living document as part of a process that needs regular checking, refining and resetting. Where the plan is regularly checked then any potential issues can be identified and addressed. Amending the plan if it needs changing will allow the flexibility needed to ensure good outcomes are reached. Continuing to follow a plan blindly or not checking it may mean that ten years down the track the succession envisaged is no longer possible and family relationships are strained. Being able to be responsive to change along the way in the succession plan is important to ensure that everyone's needs are met. The needs of the children and their families can also change if they have a partners and children. Bringing the partners into the business when the children are on-farm can be a challenging dynamic as well. If the succession plan is too inflexible then there is a risk that problems will arise along the way if the plan needs to change or it no longer meets everyone's needs. (Nelson, N. 2016) recommended that for implementing a succession plan a review process should be considered. If something is not working in year one usually it won't be working in year ten.

Being progressive and thinking about succession opens up the possibilities of being innovative and finding unique solutions that will work. The first A version of the succession plan will often not end up being what the final outcome looks like. To generalise one comment if the family had visualised where they are now 20 years ago and set that as the goal they'd never have started as it would have seen insurmountable. However, starting early and having the intention to having intergenerational business opportunities available can give people a lot of purpose and be a driver to success. Sometimes having more broad principles in place with structures that allow for change along the way can facilitate better ultimate outcomes. Being aware of that and being open to change is important.

Chris Sclater found in his research that it is important that succession planning amongst a family is a long-term procedure (Sclater, C. 2017). “A poorly executed plan and approach can often be put together at short notice having damaging effects to family relationships.” (Sclater, C. 2017). Having the process of succession in mind as a journey rather a destination facilitates a mindset for potential succession for the next generation and their children as well. Being more aware of the process Children are more inclined to be thinking about their own children or potential children and how they might succeed to them in future creating inter-generational opportunities.

7.2 Communication

Communication - the exchanging of information by speaking, writing, or using some other medium.
Communication is a single word, a mere thirteen letters long and can be trivialised at times, but if it is not done well then it may as well be a 12 gauge shotgun. Communication or lack of it was a key issue identified in being a constraint on succession from the interviews I completed. *“The greatest risk is people and relationships in family businesses. It is rare to find a family business capable of being sustainable across generations with dysfunctional relationships, let alone being viable in current one.”* (McLeod, M. 2018)

7.2.1 Open communication

Open communication that is transparent, honest and inclusive means that everyone who needs to know is in the know. It takes away assumptions, unspoken expectation and exclusion. Not every family will be able to succeed their farm to their children but picking a heir and excluding other children can be a very hurtful and distressing experience for the family members that are excluded. However, this does not mean that it is open season and that the parents needs’ and wishes are forgotten about. First and foremost, the welfare and needs of the parents must be satisfied. One consultant noted that prior to their involvement the parents had previously engaged another professional to help a family with a succession plan. The plan devised didn’t meet their needs, so it ultimately ended up in the bottom draw not actioned. Ultimately the parents must be happy with any decision because generally it is their assets and their business which they are determining the future of. The parent’s interests must be at the front and centre of any succession plan. What are the outcomes for them?

There is nothing stopping the parents from sharing information early about what they are thinking and planning. Clarifying what they feel is important. Discussing how well the business is doing and talking to their kids as to what the future might look like. Holding information too closely and not giving people the full picture can contribute to assumptions being made that aren’t correct and can stall the succession process. For example, the kids may think “Dad could never let anyone else farm the farm”. Conversely if the children are never asked, the parents may think “No one wants to farm the farm, so we’ll just sell it one day”. Avoid making assumptions as these can turn into expectations (Hayden, P. 2016). The children need to know what the parent’s wishes and intentions are. The parents need to know what the children want and whether they want to be involved in the business and to what capacity. Plans can also change too, for example a daughter marries a farmer and then returning home to farm becomes an option. One interview had a situation where one child wanted to come home and farm when the succession plan was already in progress for another child on the farm. Having open and clear communication as to the remuneration that the children who are working in the business receive is also important. Remuneration for all those working in the business should be clearly documented and articulated (McLeod, M. 2018). If this isn't communicated, there can be assumptions made by the non-farming children that the children farming are getting preferential treatment.

Open and honest communication in relation to succession will not always be rainbows and lollipops. Starting the discussions could potentially be awkward and uncomfortable. However, when the communication is respectful and objective then everyone can be clear on where they stand. When emotion comes into the conversation objectivity is lost and often rational thought goes out the window. Keeping the big picture in mind is important because once that is lost it is hard to get things back on track. 6/7 of the consultants interviewed were particularly strong on the importance of communication. This was a strong theme amongst the other professionals as well. A quality facilitator will help ensure that meetings are based on sound communication principles and things don't get terminally side-tracked. "Effective communication within the family is one of the most critical processes in establishing an effective succession plan" (Barrett, D. 2016). Encouraging open communication amongst the entire family was also a recommendation from (Sclater, C. 2017).

Tension is often part of family and business relationships. Being able to acknowledge this and manage it along the way through open communication is important. It is rare for everyone to see eye-to-eye all day, every day. Not dealing with tension can result in resentment and issues that become major sources of conflict. Farmers are reluctant to give praise but acknowledgement during succession planning can go a long way towards building stronger family relationships (Hayden, P. 2016). Celebrating success and the things that go well along the way can be influential in maintaining a positive frame of mind. While this doesn't eliminate tension, it keeps things in perspective.

7.2.2 Values

Values, morals and beliefs in time become part of our DNA. They become part of who we are. When strong values and morals are communicated within the family that can make a difference. When solid values are instilled and are part of the fabric of life people are more likely to form meaningful relationships that are more harmonious and co-operate within the family and the business. Values and morals as to how to treat people go a long way outside the business and can also make for better relationships with suppliers, buyers, contractors and professionals. Where the idea of an intergenerational business is sown early and ingrained in the fabric of the family then taking part in the succession process is something that is more natural and organic rather than being forced and contrived.

Values form the basis of what people want out of the succession process and out of life. When these are clear then it can make the process easier. Sometime the things that are unsaid are critical too. If these can be drawn out, then it avoids false assumptions being made. Being able to answer the "why" is really important. Why are we here? What are we trying to achieve? What are we doing and why do we want to do it? When everyone is clean on these points then it can be easier to reach agreement on the things that are of critical importance to everyone. Be clear on the "How would you like it to be?" question. Defining the values of the family are important as they will act like a filter to find the way forward and form part of the non-negotiables for the succession plan (Nelson, N. 2016). Where there is conflict within the family relationships these need to be restored to where there is open communication before things can move forward. Staying values driven was a key discussion point and recommendation from (Craw, A. 2017) in her Kellogg report. There are the moral values that you hold and what you place value on. Where there is open and honest communication about what people want and need then it will be easier to develop a plan to enable succession. Setting the tone early and fostering good practices for communication in the family helps create healthy relationships and reinforce positive behaviours.

7.2.3 Start early

Starting early was one of the most common responses when interviewees were asked what would be done differently if the succession planning process was to happen again. 16/22 interviews had an element of starting early. "An effective plan today is superior to a perfect plan tomorrow" was a quote from Chris Sclater who rated starting early as the most important part of a successful succession plan (Sclater, C. 2017). There are numerous benefits to starting early. If the intention is there and it is communicated early, then everyone is thinking about what needs to be in place from the outset. Starting early on a less formal basis can set the framework or a roadmap as to what could potentially happen in future. The family business could be succeeded by one child, the family works together, or the succession process facilitates multiple children farming on their own account. Talking to children about what they might like to do when they are older or whether they would like to be part of the business also normalises the succession process and discussions.

If there are issues with the financial performance or the scale of the business that are apparent early, then the parents can work towards improving these. Ideally issues are addressed before the children come into the business or the transition phase of the plan starts. Where succession planning is significantly delayed then it may be too late to address any issues. "There is no better time to start than now – tomorrow is the future you need to plan for today. The earlier you can start, the less stress there will be and the more money you and the business can save." (McLeod, M. 2018). Starting early enables skills gaps in the business and within the individual children's talents and abilities to be identified. The more skills and abilities that the family have the more options will be available to them. Starting early also allows for any changes in business structure or wills etc to take place to allow for succession before the transition in operations, management, governance and ownership starts. Not every business structure is conducive to succession planning and not addressing this makes things more difficult to untangle later.

In theory there is no right or wrong time as to when children can start to be involved in understanding the family business, provided, that they have the maturity to handle the information they are privy to. Conversations should be started at an early age and maintained over the years (Hayden, P. 2016). One family's philosophy came across as 'the children are welcome to be there and participate in the discussion, but they have to want to be there as we are not going to force them to do anything'. It may not be healthy to create an expectation that the children will come home to the family business. While some people are passionate about farming and are drawn to it, we are not all the same. The best outcome may not necessarily be the children farming at home either – they may want to be involved with the family business but farm on their own account.

7.2.4 Fears – emotional and rational

For everyone involved in the succession process there are a range of emotions. The emotional needs must be met for the business to prosper and for some of the tensions to be eased. "Emotion is an important consideration in any family discussions particularly around succession planning." (Barrett, D. 2016). As everyone is different the range of fears and emotions also vary. There are at least nine barriers to communication between generations (Barrett, D. 2016). These fears can be based on the fear of letting go and feeling worthless or of the unknown. Sometimes they can also be irrational. "What if the son is a better farmer than I am". "What if they stuff it up and lose everything we've worked for?". "What is no one wants to take the farm?". Some of these fears can be answered by dealing with the question “What do you need to see in your children before you will hand over the reins?”. There can also be rational fears that can cause stress and anxiety. “What if my husband dies what will happen to me and the children – will we be provided for?”. While fears around death are common and real some sensible insurance policies and cover of key people in the business can ensure that there are contingencies in place. Professionals can help families work through to what they want to do removing the emotion that can be a blocker (Craw, A. 2017).

When communication is good then the succession process is more likely to be ultimately a positive experience. Good communication is more likely to result in happy families. Having that as an overall goal is something worth striving for.

7.3 Clarity

Clarity - the quality of being clear and easy to understand.
Clarity is prized in diamonds and is also critical in succession planning. When there is clarity this allows the business to move forward with confidence. When there is clarity of purpose and vision people can commit to goals and give their full effort. If there is uncertainty then this can lead to issues around trust, ulterior motives and questions as to what the point of it all is. Everyone needs to understand what is happening and why.

7.3.1 Vision

Shared family vision. If there is a clear vision that everyone is happy with then things can move forward. If the vision and what is important within the family is not aligned, then the plan will be hard to implement successfully. Trust is an essential component of relationships. Where trust is lost then it is very hard to repair, and trust is essential when people are working together. Having open and honest communication and a clear understanding of people’s values makes it easier to find common ground when establishing the vision for the business and the family.

A one decision to be established early in the succession process is, do the family want to have joint ownership and effort towards one overall business group in a collaborative fashion or do they want separate businesses with individual ownership. Whether the vision is a joint collective one or the vision is for the children to be making their own legacies can be incorporated into the succession process. Assumptions are dangerous and the earlier clarity is reached the better.

Where there is not a clear cohesive vision within the family, and one cannot be found, to try and force people to work together is unlikely to be sustainable in the long run. For example, if one child wants to farm organically and another wants to farm intensively using conventional methods then the differences may be too big for them to work together. It may take a long period of time and many discussions before a shared family vision can be reached. “A clear vision and purpose for the family business is vital for considering why the family business exists and what the family aspirations are.” (Nelson, N. 2016). Some of the consultants interviewed get all the family into the room so everyone’s views can be shared. The starting point to a plan can be having at least one common goal that everyone can agree upon.

If there is a clear agreed-to vision, then a succession plan can be worked out to meet the needs of family members, provided that there are not any major constraints such as finances or the scale of the business. Any plan ultimately must be realistic.

7.3.2 Ownership structures

Are the right structures in place to allow equity to be built with clarity and ownership transfer to take place? Every family needs to have a structure that will work for them. Ultimately whichever structure is chosen needs to be met all the needs for the people involved in the succession plan. One piece of advice was to look at any structures at the outset as to whether there is the ability to exit or succeed. Thinking short term about saving a tax dollar is often detrimental to good succession planning structures. Traditionally many family trusts have been set up which have provided asset protection and some tax benefits, but these are not necessarily the most efficient structures for wealth creation, wealth distribution and transfer (Sclater, C. 2017).

If the right structures are not in place, then succession planning can't work as the farming business and assets will not end up being transferred. Each family has its' own circumstances so all potential structural options may have some merit. Having a structure that can do the job and is also flexible enough to change if required is important.

A limited company is a structure which has a lot of positives when it comes to creating an intergenerational business. The most common structure seen around the world for the transfer of wealth from one generation to the next and between siblings is the company structure (Sclater, C. 2017). A company allows for joint ownership that can be transferred or changed. It allows for the rewards for ownership to be passed out to shareholders to allow them to make best use of any profits. The succeeding generation can increase their shareholding over time without being forced to buy the whole operation in one hit. Children who are off-farm can contribute to the business and be remunerated for their efforts, have an ownership stake, and share in the profits too when the business is doing well. Companies also allow for specific wishes and clauses to be added by way of shareholders agreements. This allows for additional intentions and plans of the parties involved to be laid out clearly. This can be very important in unforeseen circumstances, where misunderstandings and incorrect assumptions can lead to strife if there are no written instructions. Some people have a mindset that they don't need a company as companies are for big businesses. Although companies have some costs, other structures can end up expensive to amend or not fit-for-purpose if situations change and assets need to change ownership. For a detailed look at the merits of the company structure in succession planning refer to Ian Blackman's book - *Keeping Farming in the Family. A Guide to Farm Succession.*

7.3.3 Shareholders agreements and legal protections

When there is an agreement on the succession plan it is essential to formalise this. This gives clarity to the process and can allow for potential changes that have been envisaged at the outset to be incorporated. Three of the six lawyers interviewed had strong recommendations in this area and (Blackman, I. 2011) is very strong on protecting the family farm. (Sclater, C. 2017) also recommended documenting everything including the business plan, value statements, goals, roles and responsibilities and recording meeting minutes.

-Terms of agreement: Within a company structure shareholders agreements' can be useful to clarify the wishes and understanding as to how agreements should play out. Death can trigger a series of events within a business that can seriously strain any potential succession plan and put relationships under the blowtorch.

-Transfer of ownership: The use of a shareholder's agreement can facilitate the transfer of ownership in a business. This should outline how and when shares are to change hands and also the mechanism to be used to value those shares.

-Trigger clauses: Shareholders agreements can also be used to determine how businesses are to be split up at future points in time, in cases of disagreement or for various parties to take funds out of the business. This could be when multiple properties are held within one business or where there are separate entities for the ownership of the land and the livestock and machinery operations of the business. Trigger clauses can also be enacted for cover various scenarios. Families can be blended or have children with a range of ages. There may be provision for non-farming children who are currently in education to come into the farming business at a future point in time and not be disadvantaged by their age.

- Protections: Legal agreements can also be used to protect the parents' interests. If the children who buy the farm decide to sell soon after purchase, the parents are protected by having a clawback clause which compensates them for the farm's increase in value over the sale price. Often parents will give children a discounted sale value to enable succession to occur. If the succeeding child sold the farm at market value soon after obtaining ownership, then they would receive a windfall gain at the expense of the parents (and non-succeeding siblings). This type of agreement safeguards the parents and could be structured on a sliding scale over a five or ten year term.

-Memorandum of wishes and other documentation: It is important to document plans and intentions. Unfortunately, life can throw curveballs. Illness or death can seriously derail any succession plans. Where things have only been discussed verbally, over time memories of those discussions can change. Where things are documented there is a record of intentions and the anticipated process. This can be done as above in a shareholder's agreement or instead in a memorandum of wishes. This document gives guidance as to how beneficiaries are to be treated and how assets are to be dealt with.

A bulletproof plan is only often only bulletproof if it is followed and nothing goes wrong. You only find out how solid it is when it comes under fire. Rather than taking a "she'll be right" attitude, it is sensible to document and write into agreements as much of the detail as possible. This gives clarity over the long run.

7**.3.4 Ownership of risk and reward**

One part to the ownership conversation is the risk/reward dynamic. Not all ventures and opportunities in a business are equal. Some are riskier than others. Who carries the risk and reward for those? Who owns the value that is being created by those who are working in the business? Where children are working in the business they may have no ownership of the business assets but contribute to the growth in value of the assets or increases in productivity. It is important to have an equitable division of property to ensure that the on-farm children are compensated for the increase in wealth they have created and protected (McLeod, M. 2018). Often the appetite for risk is different between the generations and is often determined by age and stage in life. Someone five years away from retirement may not want to stake everything on a new venture but someone coming into the business with minimal responsibilities and commitments may be keen to try something different. The growth in value and the risks may be shared collectively but there are also options for separating out certain parts of the business. Two of the consultants interviewed talked about the kiwifruit industry which can throw out some interesting dynamics with green kiwifruit orchards or portions of them transitioning to gold kiwifruit which provide higher returns but also come with expensive licence fees for the rights to grow the crop. Those that want to have the higher risk/reward portions of the business may be able to separate these aspects out from the normal operations of the business.

7.4 Capability

Capability – the power or ability to do something.
The capability of the succeeding generation is something which has come up in multiple interviews and is also very relevant to consider when looking at a farming business. Capabilities that are relevant are: operations and management on farm, finances, strategic, and succession planning expertise. Dylan Barrett recommended considering the skills within the family and whether upskilling was required and consequently how can the family assist in upskilling (Barrett, D. 2016).

7.4.1 Operational and management capability (on-farm)

For successful transition of operations on the farm the parents must be confident that the children are a safe pair of hands to manage all the aspects of the farm. If the parents doubt in the ability of the children, this can be a handbrake to starting the succession process. Conversely there is a need for caution when bringing the children into business to avoid giving them responsibility before they are ready and have the skills necessary to perform the role. "Good employment relations start prior to recruitment, ensuring that the tasks and skills required to fill the management gaps are identified and form the basis of the position description and ultimately the recruitment of the person most suited to the job." (McLeod, M 2018). Having position descriptions, review periods and training programmes for family members 'employed' on the farm prevents or minimises conflict in family owned and operated businesses (McLeod, M. 2018).

One of the benefits of starting thinking about succession early is that for the children that are interested in farming have the time and ability to build their skills and capability and potentially grow some of their own capital. If children have interests in other areas, they can explore these and see if that is what they want to be doing long term or see whether farming is the best fit for them before committing to it. Education and experience off-farm also exposes people to different ways of thinking and farming. This also may open up opportunities for other ventures, industries or farms away from the family farm. Letting a child go an pursue interests or a career away from the farm business will likely result in the child returning with extensive outside information that can be extremely helpful in adding to the family business (Sclater, C. 2017). There is a danger when children start working on the family farm straight from school that they only learn one way to farm. While that way may be a very good way to farm it may not necessarily be the best way to farm. Only knowing one way may also make people reluctant to change their farming system or to try anything new.

As part of the succession planning process skill gaps can be identified. This can lead to training being put in place to grow the capability of the children or potentially people with those skills can be employed or brought in as consultants. Where children at a younger age are still growing their capability with schooling and training this shouldn't be a handbrake on the business – provided cashflow allows, the appropriate people can be hired to help run the operations and/or management of the business.

On-farm as part of the succession transition having regular meetings or catch up around the operations of the business ensures that the day-to-day parts of the business are running well. Holding family business meetings regularly provides an opportunity to discuss issues and to check and revise operational plans against strategy (McLeod, M, 2018). Having regular discussions on operational matters also allows for the transfer of knowledge between the generations. Where the parents have been on a particular farm over a long period of time there is often a lot of knowledge and experience that the younger generation can benefit from.

7.4.2 Financial capability

Having a viable business is one of the key building blocks to having a succession plan that is realistic and achievable. If the business is not viable then a succession plan should not be entered into until the business performance can be turned around. The business needs to be able to support the needs of those working in it. (Sclater, C. 2017) emphasised viability as a key finding in his report on succession planning and governance. In my interviews, finances were noted as being one of the biggest challenges to overcome to enable succession. There is little point implementing a succession plan without the scale to provide enough income to give both the parents and the succeeding children financial security. Without a farming operation that is able to support two families there is little prospect of a successful succession plan (Blackman, I. 2011).

-Business of farming

Farming is a business. However as there are so many interconnections with lifestyle, family and heritage it is often more than just a business. Because of this sometimes the disciplines of good business and appropriate financial management can go by the wayside.

"*Top farmers had a much keener focus on making good profits and they knew which aspects of their operations made the best returns and consequently this was where they focused efforts. …..They also had a much firmer grasp of the financials of their business.*" (UMR Research. 2014).

Whoever is running the business needs to have a sound understanding of the financial side of the business. Issues in relation to the financial strength of the business and being able to pass on a viable business is one of the hardest problems to overcome in succession planning. Due to this it is important that the family business has good capability in this area. Working in operations roles in farming is hard work and it is important that the finances are taken care of to ensure that there is a return on that effort. Understanding what activities add value to the business and generate net cash flow and how to control costs can be the difference between making a loss, breaking even or making a profit year to year. The importance of knowing the key performance drivers of the business cannot be understated. Good businesses often do a lot of small things well as they all contribute to the bottom line. They also are continuously striving for improvement. 2% improvement a year over 10 years equates to 20% which is a competitive advantage.

"Top performers were far more confident than mid-tier farmers that they had the ability to create a business that would facilitate succession. The top farmers' properties were more profitable meaning there was more scope for growing the business and supporting the next generation." (UMR Research. 2014).

Having a budget and referring back to it to check actual performance throughout the season can help people stay on track and monitor financial performance. Using a business plan for any investment decision within or outside the farm gate can also be useful to evaluate any investment to ensure that it stacks up financially. Being in the business of farming and generating cashflow is the best way to honour the family. The better the business is the more options are available for the business and for the succession plan.

-Debt

Debt is not crippling to business succession provided the businesses profitability has not been impaired. Where a business is not viable or marginal for one family let alone two families then a realistic succession plan is extremely hard to achieve. Either the profitability needs to be improved or something done in relation to the debt to enable a succession plan to be put in place. Where businesses expand via debt funding strong disciplines need to be maintained to ensure profitability is maintained every year not just the good ones. If the business cannot meet its commitments, then the whole farm operation is placed under threat. Debt is a tool that business can use but it must be done strategically and work for the business. It might be nice to buy the neighbours but if the numbers don't work relative to the asking price or what the auction hits, then it is not worth putting the whole business under threat. While it may be the 'only chance' to buy that particular farm or block other opportunities will arise over time.

-Remuneration

It is important that when family are working in the business that they are treated fairly. Most people have heard stories of one about the son who worked on the farm for 30 years for peanuts only to see it sold. Market rate remuneration should be paid to family members working in the business. One interview comment in relation to paying people what they are worth is "You don't get nothing for nothing". Rewarding those who work in the business fairly for their time and input is important for both those on-farm and for the siblings that aren't involved in running day-to-day operations (Sclater, C. 2017). Roles and pay rates need to be based on skills, responsibilities and ability not just on lineage. "Remuneration for all employed in the family business should be explicit and transparent such that there can be no difference between expectation and reality." (McLeod, M 2018). Entitlement and presumption should pay no part in the business of farming though. Where people are given excessive renumeration it does not do them any favours in the long run as it gives a false sense of how much they are worth and what value they bring to the business. Paying disproportionate wages also reduces the business' ability to pay down debt.

-Running the finances

The financial area is one part of the business where children who are off-farm but still want to actively participate in the business can be engaged. Per (Sclater, C. 2017) having clearly defined roles allows for children off-farm to take an active involvement in the business. Taking care of the receivables and payables, GST, PAYE wages, budgets etc and reporting on these with modern technology can be done remotely. Where there is quality broadband coverage, they can also participate via video conference in meetings about finance, operations and strategy.

7.4.3 Strategic capability

Strategic capability is about working on business not in the business. I have found in interviews where succession has been done well and elements of innovation is present there is an element of business oversight or governance. This could be formal or informal. As part of the implementation of the succession plan the level of thought that went into this area increased for five out of the six farmers interviewed. The professionals interviewed indicated that there was more oversight in businesses as a result of the succession plans. Research has shown that three keys to successful family businesses are regular business planning, regular family business meetings and governance (McLeod, M. 2018). Regular business/oversight meetings whether quarterly or semi-annual allow families to look at their businesses from a strategic perspective. If the helicopter view of the business isn't taken from time to time it is easy for the farm to stay in operations mode. If you are slogging away in the day-to- day it is hard to think strategically or creatively about the business. "Instilling business planning processes in the current business is a starting point for thinking about the future and being disciplined to spend time working on the business and not in the business." (Nelson, N. 2016). Even when people do have strategic meetings it is hard to focus on the direction of the business and the strengths, weaknesses, opportunities and threats the business faces without being caught up in management or operations. "Family businesses need to transition from families in business (where there is no separation between family, management and ownership) to family businesses with clear separation between the roles." (McLeod, M. 2018). Possibly this can be done with a formal agenda and a meeting chair tasked with keeping things on point and away from operations. Three consultants interviewed recommended that strategic meetings be held off farm as this increased peoples' ability to focus on the business. Where the hand tools are stored can be dealt with at a farm operations meeting!

The skillset in the governance/oversight space is not something that everyone has naturally. These skills can be developed within the family through Institute of Directors' courses, governance courses and other courses to upskill the strategic capability. When you are aware of the gaps then you can be proactive in building the capability in the family. While a bigger business may justify hiring an independent director or consultant that doesn't mean smaller businesses should forget about oversight or governance. It can be done on a shoestring but requires having independence of thought and being able to step back and look at the big picture. Having the right mindset is key. With an open mind the options are much broader and varied as you are open to possibility. The scope of the business is not limited to a certain type of farming, land use or what the operation should look like. Ideally a truly independent professional with no financial interest in the business beyond the director/consultant role is preferred. However, is hard to find truly independent directors/trustees with the skills required to assist farming businesses and have the time and willingness to do it. When it comes to independent trustees the pool is even smaller due to the strengthening of the requirements for trustees. Trustees can be held liable for guarantees on secured bank lending (McLeod, M. 2018). For sheep and beef business this can be even more pronounced due to perceptions of lower cash flow and profitability. Independence of thought is more important than true independence where there is a consultant or professional who has right skills and can assist the business. This was the predominant view of the professionals that I interviewed. Provided a third party can maintain neutrality, not preferentially treating any of the family, then they may be the best person available to meet that strategic need. There are some capable professionals out there who can assist with strategic business advice and can think without bias.

Some businesses have run these business/strategic meetings over time and have allowed younger children to listen in. This gives children a degree of understanding before they are sitting around the table in operations or management roles. As the family matures including children in planning meetings or business reviews can help them to develop an appreciation of the business as well as teaching good governance and business disciplines (Nelson, N. 2016). Having business knowledge puts children in a better position to know where things stand, what profitability looks like and its drivers and the level of debt in the business.

Some families have grown their businesses to the point where they have multiple farms or different types of farm and/or additional off-farm assets. Sometimes private assets such as baches or holiday homes are owned by the family as well. Strategically when there are multiple business ventures on the go these can be classified within the business as a whole. Management theory can split businesses into mature assets, growth assets and cash cows. Depending on the family. Selling mature assets can fund the future purchase of growth assets. Diversifying assets away from the farming business may also allow the parents to have a retirement that is funded by off-farm assets as opposed to being dependent on income from the farm to maintain their standard of living. Four interviews stood out where there was a strong strategic focus and plan in place in relation to diversification and asset classification.

Innovation can be oversold as a magic bullet. Although something might be different relative to a normal farming operation if there is sound philosophy and a strong business case behind it then it is just good business. Innovation in structure or type of enterprise doesn't solve the challenge of poor finances or a low scale of operations alone unless it allows the business to shift to where it can meet the building block needs of a sound succession plan. When there is quality governance or oversight then there is the ability to discuss and evaluate innovative and entrepreneurial ideas as strategic options.

Sometimes the adversity of realising that any succession plan is not possible can drive a family to make their business viable. Necessity can be a great motivator.

7.4.4 Succession planning capability

While some families can create their own succession plans often people don't know where to start. Quality professionals can greatly assist in this process. One of my interviewees had been involved with over 100 succession plans. That sort of experience is invaluable.

The best professional for the job may not be the existing accountant or lawyer. Not every professional has the right skill set or the ability to engage constructively in the succession planning process. There are a range of consultants involved in this space. Engaging a professional to assist in the process can help the family gain clarity and ensure that the process is workable with deliverable outcomes that meet everyone's needs. To be effective independent advisors need to have the respect of all the family members and they need to obtain a thorough understanding of the family dynamics and the core values underpinning the family business (Barrett, D. 2016). Often bankers, lawyers and accountants will all need to be involved in the process. Before implementing a plan, legal and accountancy advice should be sought around ownership and management structures (Barrett, D. 2016). To ensure there isn't overlap ideally one professional or person drives the process. This ensures that things get done and time and money isn't wasted going back and forth between various parties. A couple of interviews particularly highlighted the value of professionals. Without the involvement of professionals' succession would not have been able to occur. (Nelson, N. 2016) emphasised the importance of advisors as change agents in succession planning. "They need to ensure the issues are understood, then help align some common ground and clarity on the way forward." (Nelson, N. 2016). Professionals can have a place in instigating the discussions within the family on behalf of the parents if they don't know where to start. Nelson recommended that "Succession conversations need to be structured around a formal process run by a chair or independent facilitator." (Nelson, N. 2016).

Where the business has a process in place to think about the business at regular intervals this is a good opportunity to incorporate reviewing the succession plan into this process. Have a reoccurring agenda item as to how the succession plan timeframes and objectives are going and check whether is it meeting everyone's needs. It is a process not a one-off piece of planning that is stuffed in the bottom drawer.

7.5 Options

Over the course of the interviews completed a range of things that people had done in their businesses came to light. Every business is different, and every family has unique needs. Any one of these alternatives could be an option in the right set of circumstances. However, any change is only possible when the people involved in the family business have the right mindset and are open to the possibility of doing things differently. If there is a closed mindset of "there's only one way to do things around here which is the way that we have always done it" then change is not possible.

7.5.1 Alternative or complementary businesses

There can be businesses within the business contributing to the overall success of everyone. Net cashflow benefits can flow to the business by making use of the next generation's skills interests and passions. These businesses must come with a business plan to show how it adds value to the consolidated family business. Hypothetically a contracting business could be complimentary to farming operations. But if it sucks time, resource (funds) and energy away from the farm and doesn't give a return, then the family would be better off sticking to their knitting and focussing on on-farm improvements. The skills to run other businesses can be obtained by children working or studying in other areas off-farm or on other farms and then coming back to the farm or into the farming business later-on.

These alternative businesses can be run separately within the wider farming operation with different ownership structures to the farm business. This allows the people that are growing the value in these businesses to own a greater proportion of them as a reflection on their efforts.

Sometimes the partners/spouses of children can have expertise or passions in areas that are not traditionally part of the farming businesses such as tourism. With a mindset that is open to opportunity and the ability to incorporate other ideas into the farming business families can add value to their businesses and diversify their income streams.

7.5.2 Other options:

-Collective effort. Pool resources and effort to leverage off the existing business. Potentially in businesses that don't require the purchase of land. E.g. share-milking businesses to generate returns or farming on leased land.

-Creation of a company with 50:50 shareholding with debt back to the parents or a trust. Allow children to get in early and share in equity growth.

-Lease the farm to the succeeding generation early. Allow the children to get a greater portion of the business profit to facilitate the repayment of debt. Once debt is repaid equity can be built enabling the purchase of the land and buildings.

-Separation of risk. Such as in the kiwifruit industry – Children own the risk/return on converting green to gold kiwifruit.

-Strategically separating the business into business units. Structuring business decisions around increasing the growth assets and moving away from mature asset classes.

-Split the potential future revenue streams. Non-farming children be allocated forestry rights as opposed to the assets of farm operating business and productive farmland for their inheritance. Farming children benefit from profits in farm business and growing the productive value of the farm.

-Structuring for potential separation. In larger businesses have individual business units as separate companies. Differing shareholdings to reflect children's contribution to each individual business.

-Inter-generational trust/entity. Whoever is farming has the ability to lease the farm at good rates and make money. Opportunity to farm the land is available rather than ownership of the land. Non-farming family members can potentially leverage off the farm asset.

-Sell portions of the farm or leverage off the asset of the farm to provide children with their own opportunities on other farms, farming businesses or outside of the farming business.

-Bring in outside capital into the business in an equity venture. Where the parents want to exit the business but are unable to rebalancing the books by creating a new venture and replacing some of the parents' capital with that of a third-party investor or a loan that allows the parents to move off-farm. Third party investor takes a shareholding in the business or commits capital as a loan for a certain term.

7.6 Drivers within the family for succession

Within my research, one finding was that it is often mother in the succeeding generation who initiates the discussion to get the ball rolling or drives the succession process to ensure that it happens. The mother often has a concern for the family relationships. This leads to the succession discussions being a priority for her to ensure there is clarity and certainty once the process has been put in place and agreed upon. Comments were that the father usually has an idea of what they think that they would like to do and will say that they have it 'sorted' but this stays in their head as thoughts only and is not actioned or communicated. If they have a traditional mindset, that may result in only the chosen heir being involved in any discussions around succession. Succession can be left too late if the parents farm too long, not wanting to hand over the reins. Where children are working on-farm often they have a strong desire to get clarity around the future so they can raise the topic of succession as well. Professionals may be in a privileged position within the family business and may be able to prompt conversations on succession if the family has not considered this or started the process (Nelson, N. 2016). For a lot of families starting the ball rolling will be awkward and uncomfortable but delaying the process is not in anyone's best interests.

7.7 Devil's advocates

Through the research interviews a number of thoughts and ideas came up that are valuable to take into account when considering innovation and succession planning.

7.7.1 Innovation needs financial performance to back it up

One of my interviews was with a professional who had been through the succession planning process within his own family and had a somewhat sceptical view towards innovation. In his view innovative structures and planning were meaningless without the business performance to back it up. The reason for this is that without the business performance the succeeding party will never grow their equity fast enough to eventually buy the farm. He also had a belief that some families shy away from talking about succession planning where there are a larger number of children (fairness issue) or if the business has a lot of debt (business constraint). If it is impossible to be equal to all the children and retain the farm, then some concessions need to be made by the non-succeeding children and potentially the parents for the farm to be retained by the next generation. Where concessions need to be made if the other children can receive a portion of their inheritance share early, this allows them to put that to good use and move forward with their own lives. The other children may be able to receive assets that don't relate to the direct farming operation ensuring that the farming business remains viable. Where a succession plan isn't feasible, and the best option is to sell, the earlier that decision is reached the better. That allows the family to apply some strategy to realise the best possible value from the farm and invest the capital into areas that makes best use of those funds.

7.7.2 When the divide cannot be bridged

One point that was raised by a farmer who had been interviewed was that when working with family there is nothing that can be done structurally within a business to alleviate fundamental personality and philosophical differences within the family about how they view the business. Where the differences are so great at the outset and no amount of talking will change those factors, then you cannot force family to farm together. If sibling rivalries or other barriers cannot be overcome, then each family member is better off being happy farming on their own account or working in their own business than being in a forced family farming business relationship.

7.7.3 Integration of children's spouses and partners into the business

One theme that came through was a degree of unease in and around children's partners. Large businesses can be seen to be the parents' legacy and if they do not have confidence in the partner of the potential successor it can be a roadblock in the succession process. As succession happens over a long period, often the children find long term partners or get married while the succession process is happening. There needs to be an element of flexibility to adjust the succession plan due to changing priorities and needs. The partners of non-farming children or those who come from urban backgrounds can have different ideas around fairness which may not be conducive to inter-generational business transfer. 'Farming's In-law Factor: How to Have More Harmony and Less Conflict on Family Farms' by Froese, E. & MacKenzie, M. (2014) is recommended reading in this area.

7.7.4 Subordination of family debt

One other issue identified by a lawyer was the subordination of family debts. Sometimes where the succeeding generation is buying the land outright from the parents' capital in the form of a family loan will need to be left in the business. Some banks are now subordinating this debt. The impact of this is that if the parents want to call in some of the debt that they are owed at a future point in time then the bank will have to give approval for the repayment.

7.7.5 Control from beyond the grave

Another thing to be wary of, is where parents want to set up assets to be left in trusts or other structures long term as a form of legacy for the good of the family providing for grandchildren etc. While that may work well for them and the children may initially be happy with the arrangement things can change over time. Control from beyond the grave can be limiting. It may not be the best for the children later on in life after the parents have died as needs and priorities can change over time.

7.7.6 Tyranny of history

One significant roadblock to succession that has been identified is the tyranny of history. If a particular farm has been in the family for multiple generations then sometimes this can become a millstone. It may not be the best solution for the family and a viable succession plan to continue to farm a particular farm indefinitely. There may be more opportunity in farming a different type of farm or on another property with more scale. Solutions to the succession challenge may not be feasible on the home farm. Hypothetically, is it more important to have the family farming for 200+ years or to farm one particular farm for 120 years but have to sell it because there is no future and no successors. The decision to sell is never easy, but to not make any decisions and ultimately end up selling further down the track would be a wasted opportunity. Procrastinating on decision-making is a decision in itself.

7.7.7 Horizon of the business

It can also be pertinent for parents not to overcommit the business to expansion before they start the transition process. If the children will be succeeding in the business, then they are the ones who will be running the business and ultimately paying the debt and the bills. This point goes back to communication and ensuring that all stakeholders understand the implications of business decisions and the strategy that the business is following.

8.0 Conclusions

Succession planning will continue to be a challenging topic. The objective of this project was to find innovative approaches that people have used to enable succession planning to happen on the family farm. Through my research, many alternative businesses and ways that people have structured their succession planning journeys have come to light. From these interviews, there were not any models or alternative structures that were game-changing beyond those already in use.

The strongest themes that have come out of my research in relation to the innovative approaches to succession is that communication, clarity and capability are key components of creating a succession plan. I believe that these factors translate well to the succession planning process on the family farm. The fundamental elements of a good succession plan of the parents' needs being met, an element of fairness to the children and a viable business to be passed on are of critical importance. However, these building blocks may not always be present. When the additional pillars of communication, clarity and capability are in place then plans can be developed to improve the business to the point where succession can occur.

The communication pillar covers having good open communication channels within the family, instilling strong values and beliefs within the family and being clear on these. Communication is vital; an inability to communicate will cause issues as assumptions and un-realistic expectations can tear things apart. Starting the process early is also important and this involves communication within the family. Succession planning is a journey so starting early gives the family a better chance of success. When the business is already in a sound position it allows everyone to move forward with confidence. The future can be planned for and positive decisions can be made to grow people and the business. Where improvement is needed, identifying it early allows the business to be worked on and strengthened. If succession planning is left too late and there are issues in the business, succession may not be possible.

The clarity pillar is in and around the framework of the business and how the succession process operates. It is important that there is a clear agreed upon vision. For everyone to commit fully to achieving the business and succession goals there needs to be an ownership structure which allows for succession to take place in a timely manner and that will meet everyone's needs. A company structure appears to be most suited to this task. It is also important that the appropriate legal protections are put in place and documented.

The capability pillar addresses the importance of having the right skills and people involved with the business. Ensuring that the operational and management functions of the business are sound allows for day-to-day operations to move forward and perform well. Having a sound understanding of the financials ensures that the business is sound or moves as quickly as possible to being viable. Having strategic capability in the business allows for critical thinking and high-level thought to work on the business and develop and grow it. Strategic capability combined with an open mindset allows for the possibility of alternative businesses and solutions to be brought to the table, evaluated and pursued if they are viable options. Having capability in the form of the right professionals at the right times can facilitate the succession process and ensure that it moves forward. A lot of people don't know where to start so the right professional can add a lot of value.

Where there is a good business with sound building blocks in place for succession and the pillars of good communication, clarity and capability are added, some amazing success stories can be generated. There are some fantastic farming families who have driven their businesses to the next level. They have done this incorporating succession to provide the next generation with opportunities to grow and develop inter-generational farming businesses. Farming businesses will continue to be the backbone of the agricultural economy and of massive significance to NZ Inc. for many years to come. Family farming businesses for many of us are a source of pride and part of our lives and heritage. Enabling future generations to continue a rural way of life is incredibly important. Succession is a journey. Start early, with the end goal in mind.

9.0 Recommendations

9.1 Start early

Succession is a journey the earlier you start the better. This doesn't mean having a family meeting with primary school aged children and mapping out the next 50 years of their lives. It's about thinking about it and having the broad conversations about the business and building the DNA of the family business. When children are older it is more appropriate to have a family meeting in a more formal setting. Starting early has many benefits in relation to skills, appropriate structures and ensuring adequate business performance. If you want to create an intergenerational business don't leave it too late. Improving financial performance and/or debt in the business is not a five minute job and children may not want to or be able to come back to farming if they have spent 20 years building careers off farm. Professionals can help get the process underway. The choice to do nothing can have large implications further down the track.

9.2 Practice good communication

Good communication doesn't cost you anything, but poor communication could cost you everything. Having open and honest communication in place within the family means that everyone is informed and knows what is going on. When everyone is able to listen and understand what each other is saying in a safe environment then the fears and concerns can be addressed. Open and honest communication can remove dangerous assumptions and put wants and needs clearly on the table. It is hard to make a plan and commit to it when there is uncertainty and unresolved issues.

9.3 Have clear values

Ensuring that everyone understands what you value is important. Where values are not clear it will be very hard to create a plan that will meet the parents needs let alone anyone else's. How you want things to be sets the direction for the business. It is paramount that the needs of the parents are met, that they are looked after, and they are comfortable with the succession plan. If some collective values can be established, then common ground can be used as the starting point for the creation of a plan.

9.4 Set a framework for the vision of the business

Succession planning is a journey. Without an idea of the destination it is hard to know where to start and how to get there. Without a clear vision it is hard for the next generation and sometimes the parents to commit to be farming business (why invest in a farm that you may need to sell?). A key question that needs to be answered is: Are we creating a collaborative family farming business or are we creating opportunities for children to create their own businesses? As succession is a journey the plan will probably change over time. But if you don't have the end in mind or a clear picture as to what you want the future look like it is easy to muddle along without making much progress. Uncertainty is a handbrake on progress. A couple of pertinent quotes are "Start with the end in mind" and from Seth Godin "Beginning is magical. So is finishing. We can embrace both." (Godin, S. 2019)

9.5 Have a clear business structure that will facilitate succession and document it

Without a business structure that allows for the transfer of ownership then any succession is doomed to failure. The best intentions in the world cannot compensate for an inadequate structure that does not allow for the necessary transition to occur or takes too long. To create an intergenerational business the children need to be able to obtain a majority ownership with enough time to then transition the business to their children. Every family has different needs, but the company structure appears to have the most versatile and can enable transition of ownership of the business assets over time. Ensure clear documentation in place as to the intended process of the succession and put in place legal agreements to have some protections for unforeseen circumstances.

9.6 Clarity on remuneration and on who owns increases in value

As part of the succession process in where children are coming into the business it is important that they are remunerated fairly and at market rates. Where the value of the business is being built it is important to have clarity on who ultimately owns those increases in value. Where new ventures are undertaken this is particularly important.

9.7 Building the capability of the business

Without the right capability in place the practical elements of achieving succession will be hard. Having the right skillsets to run the operations and management of the business ensures that the business continues to run well during the succession phase. Having financial capability with sound financials and appreciation of the business ensures that there is a viable business to pass on. Where the performance is not optimal, but this is identified early then changes can be made to improve the business facilitating succession at a later point in time. Strategic capability allows the business to be worked on and decisions to be made that drive business performance. Putting in place some form of oversight helps drive business performance and it also provides a great opportunity to review the succession plan regularly. Strategic strength in the business allows options and alternatives to be critically evaluated without emotion over-riding the decision-making process. Innovation is only useful if it contributes to the business.

9.8 Engage quality professionals to help

Professionals are often best placed to facilitate the formal succession process. Getting quality advice early can make all the difference. Having the right person involved at the start means that the goals of the family can be clearly identified, and plans can be made to reach these. A good professional will be able to listen and understand the issues that need to be addressed. Having a quality professional involved means stress and uncertainty can be reduced. Tensions can be identified and managed by a third party who is helping run the process, rather than having negotiations blow up within the family before they seek help. Professionals have experience with legal structures and can bring other people in to help where required. Having one person who can co-ordinate the other professionals, put good disciplines in place and keep people accountable to deadlines can ensure that the succession journey progresses. The right professional for the job may not be the existing accountant or lawyer. If you don’t know where to start, engage a quality professional as an investment in the family to get the ball rolling.

9.9 Have an open mind

If you have a closed mindset achieving anything creative or different is hard to achieve. The only constant in life is change. Being adaptable and flexible and willing to look at different approaches is healthy for a business. Looking at things from the viewpoint of what is possible can open up numerous opportunities. Having sound financial disciplines in place and being able to strategically evaluate any options will determine whether they are options that are worth pursuing. This can only happen if there is a willingness to look at them and not rule anything out from the get-go. At the outset of this project I thought that being able retain someone farming on the family farm was critical. I now believe that retention of a particular block of land, although it may hold emotional ties, may not always be the best option to enable inter-generational farming businesses and to provide future generations with the opportunity to farm.

9.10 Further research

From this topic I think that there are opportunities to look further into some other areas on the subject of succession planning.

-Succession planning where there are no family members interested in actively farming. “Appropriate structures to support succession planning where there is no on-farm succession” or similar. There is a business called Cultivate Farms in Australia aiming to match retiring farmers with young farmers and investors in succession partnerships. This could be one option to be investigated.

-Alternative approaches to intergenerational transfer. Can on-farm succession be achieved by skipping a generation or via transfer to a successor within the wider family group (nephews, nieces or cousins). If intergenerational transfer and retention of the farm within the family is important to the succeeding generation then is it critical that one of their succeeding generations children take the reins to the farm?

-Research into succession planning failures and sub-optimal outcomes would be insightful. Nuthall and Old noted in their report that surveying retired farmers and reviewing their plans and outcomes may be the best way to do this. One scenario I was told of where things went wrong was where “Too much was given to the wrong person at the wrong time”. Identifying the issues that have caused the failures and why these have occurred would then be relevant to tweaking the thought processes around succession planning and hypothetical best practice in this area.

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Appendix 1. Interview Format

1.0 In your own family or in another family that you can think of has there been a succession plan for the operation or ownership of the family farm that you consider is innovative?

1.1 Can you give me a brief outline of the plan?

2.0 What was scale of the farming operation prior to the succession planning?

2.1 Which family members were involved in the farming operation prior to the succession plan being formulated?

2.2 What were their roles?

3.0 Who instigated the discussions that led to the succession plan being put in place?

3.1 What role did non-farming family members have in the discussions and ultimate development of the plan?

4.0 Which if any professionals such as lawyers, accountants or consultants were involved in the formulation of the plan?

5.0 Were there any constraints on the process such as farm size or farm finances?

6.0 What changes were made to ownership of farm assets or the farming business if any as part of the plan?

6.1 If there were provisions as part of the plan for the succeeding parties to increase their ownership of assets or the business over time what were these?

6.2 What changes were made to the management and responsibilities and governance in the farming operation if any as part of the succession plan?

7.0 Describe how was it implemented?

8.0 What factors do you believe made this plan unique or innovative?

9.0 What were the challenges that came up during the transition phase of the succession plan?

9.1 How were these challenges overcome?

10.0 How successful is the business financially in the post transition phase?

10.1 How are the family relationships post transition phase of the succession plan?

11.0 What if any changes were made farm operations or long term goals after the transition/handover part of the succession plan had taken place?

12.0 If you/they were to undertake the same process again what would you/they change?

12.1 If you/they were to change that how would you/they do it differently?