

# **Farming Families and Succession**

## **Sort out the Soft Stuff**

Kellogg Rural Leaders Programme

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November, 2013



## **Executive Summary**

Family farming operations form the basis of New Zealand's rural sector. The continued success of the New Zealand economy is reliant on a productive and vibrant rural sector. Effective farm succession has a considerable part to play in continuing this vibrancy.

Family Farm Succession is "the process of transitioning the management and ownership of the farming business to the following generation" (Walsh, 2011). It is a process that involves people, their land and business. Within this research I focus on the 'people' or interpersonal factors of the succession process.

The objective of my research is to provide a practical guide that assists both the retiring and succeeding generations to approach the subject of succession with each other. The maintenance or improvement of relationships and communication within the family and farm business is a key outcome of this objective.

I employ secondary research methods in approaching this objective. A comprehensive content analysis is completed. A broad range of literature is reviewed to build an understanding of the significant inhibitors to successful farm succession. These inhibitors are organised into four major categories. These inhibiting categories are utilised to develop some guidelines that farming families can follow as they proceed through a succession of their family farm.

There are four major categories of inhibitors to successful farm succession.

1. **Poor Communication**

Communication is critical to any process that involves people. This is especially true for succession. Poor communication can have a number of effects on the succession process, including: misunderstanding, lack of transparency, the development of unrealistic expectations, which can result in family conflict and disappointment for one or more family members.

2. **Lack of a Structured Process**

Failing to follow a defined process leads to a lack of coordination, increased complexity and delays in achieving succession. Poor processes can have a number of negative effects on the succession process, including: lack of transparency and certainty for family members, breakdowns in communication, and a lack of clarity for family members as to progress with succession.

### 3. History, Harmony and Family Dynamics

Each and every family has its unique aspects that have an influence on the succession process. Past conflicts and rivalries can derail the succession process if they are not openly addressed. Likewise poor relationships within the family can lead to ineffective succession if all family members can not actively involve themselves in the process.

### 4. Delayed Timing of Succession

Delayed succession is an issue that is common across many families' succession processes. It can lead to uncertainty and a lack of clarity for family members if succession is delayed relative to the time frame that it is expected to take place within.

There are actions that farming families can take to avoid the inhibitors to successful farm succession. These actions involve three key steps – The Three Pillars of successful farm succession. To ignore one of these significantly increases the probability of inhibitors of succession derailing the process, resulting in a range of undesirable outcomes from irresolvable disappointment for one or more family members through to full blown family conflict. These three pillars are outlined below.

#### 1. Commit to Making a Start

Succession is often delayed. It is an issue that is daunting for many to approach. It is something that is recognised as being critical, but one that falls victim to the day-to-day demands of farming. The uncertainty of the result and requirement to make hard decisions along the way also contribute to the procrastination around starting. Succession takes effort and focus, and the earliest step of making a start requires a family member to define a date that the succession process must begin by. Commit to starting succession with the family.

#### 2. Develop, Define and Follow a Process

There are 11 underlying principles that are critical to succession as a process. These underlying principles are:

- a. Succession must be considered as a process
- b. Feelings before facts
- c. Treat succession as an ongoing discussion, not one discrete conversation
- d. Address the financials
- e. Respect differences in personalities
- f. Develop a vision
- g. Include all family members

- h. Build flexibility into the process
- i. Lead succession
- j. Seek advice
- k. All family members must commit to the process

### 3. Commit to Effective Communication

The outcome of the succession process is dependent on family members' efforts to effectively communicate with each other. Some members will find it harder to talk about succession than others. It is critical that the family members assist each other through this. This is an area where external assistance can assist with creating a forum for open and honest communication.

The family is intertwined with all aspects of the family farming business. Thus, the family must be a focus through the succession process as it is initiated, progresses and is finalised. Doing so will help neutralise potential inhibitors to a successful farm succession process and increase the likelihood that a vibrant, successful farm business and a strong family post succession.



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# **1 Introduction**

Succession of the family farm to the next generation is a significant issue for New Zealand agriculture. The majority of New Zealand farms are family owned, and managed by an aging farmer population. While this aging farming population has a clear desire to pass the farm to the next generation, the path they should follow to achieve this is unclear for many.

Succession is a complex process in which a broad range of factors must be considered. In approaching succession the financial and structural mechanics often receive the majority of attention. Contrary to this I believe the 'people' side of succession, family members individual wishes must be considered as the first step. It is the inability to manage the family component that has proven to be the major stumbling block for family businesses in the succession process (Walsh, 2011). In this report I focus on those non financial, 'people' factors of succession.

In this research I review a broad range of family farm succession literature. Content analysis is used to identify the major non-technical inhibitors of successful farm business succession. I approach the research from the angle of inhibitors as there is a need to proactively manage the issues that can derail families' efforts in succession. This research approach is supported by Kozikis et al (2012), who states the chances of achieving something can be increased if one focuses on reducing factors that hinder an event from occurring rather than putting increased effort into the factors that assist the event.

From this I develop a number of recommended actions and behaviours that farming families should incorporate into their succession process. Following these recommendations will minimise the opportunity for inhibitors of succession to occur, thus increasing the likelihood of successful outcomes. Some recommendations will be more relevant to some families than others.

## **2 Objective**

The objective of this report is to answer the following research questions:

- What are the major non-technical inhibitors of family farm succession?
- What actions can family members take in approaching succession to neutralise those inhibitors?

My aim for this report is to assist both the retiring and succeeding generations to approach the subject of succession with each other, while maintaining or improving relationships and communication within the family and farm business.

### **3 Methodology**

In this research I utilise a form of content analysis to identify key concepts and common themes within family farm and family business literature. Content analysis is “any methodological measurement applied to text (or any other symbolic materials) for social science purposes” (Shapiro & Markoff, 1997, p14).

Initially I conducted a comprehensive search for literature relating to farm succession and family business succession. This was followed by a thorough analysis of that literature, focussing on the identification of common themes of inhibitors of successful family farm business succession. This approach is consistent with the method of content analysis, which assumes that groups of words reveal the underlying themes of the subject of the analysis (Duriau et al, 2007).

I then grouped the factors that emerged from the analysis, to reveal the underlying themes that impact on the success or failure of a family’s attempt at farm business succession. This qualitative approach to content analysis is consistent with approaches used in organisational research (Duriau et al, 2007).

Four themes emerged from this analysis. These four themes form a foundation for the development of recommended actions and approaches that families can take in their pursuit of successful inter-generational succession of the family farm. These themes form the structure of this report, with each theme acting as a section heading, with the relevant inhibitors summarised under each.

In taking this approach I have taken a number of sources, identified the key themes across those sources, and condensed them into a guide that can help families who may begin, have begun or are struggling to begin the succession process.

### **4 Definition**

In this report I use the following definition of family farm succession, adapted from Walsh (2011) – “Family Farm Succession is the process of transitioning the management and ownership of the farming business to the following generation”.

For simplicity, throughout this report “Family Farm Succession” is referred to as “succession”.

## 5 Desired Outcomes of Succession

There are a number of outcomes that succession must achieve. While each person involved may rank these outcomes differently, failing to achieve each outcome will result in a succession that is unsatisfactory for one or more of the people involved. The succession must be capable of accommodating the needs of all the members of the farm family (Little & Taylor, 1998).

Outcomes include:

- Retaining sufficient retirement income for the retiring generation (Little & Taylor, 1998; Blackman, 2011)
- Emotional security for the retiring generation (Blackman, 2011)
- A flexible and resilient plan for the succeeding child (Blackman, 2011)
- Fairness to all children (Little & Taylor, 1998; Blackman, 2011)
- Preservation of family harmony (Little & Taylor, 1998)

## 6 Inhibitors of Successful Family Farm Succession

The analysis of the literature revealed a wide range of factors that inhibit the successful succession of the farm business between generations. Further analysis of the theme of inhibitors exposed four broad categories of inhibitors relevant to family farm succession. These four major categories of inhibitors are presented below in Figure 1.

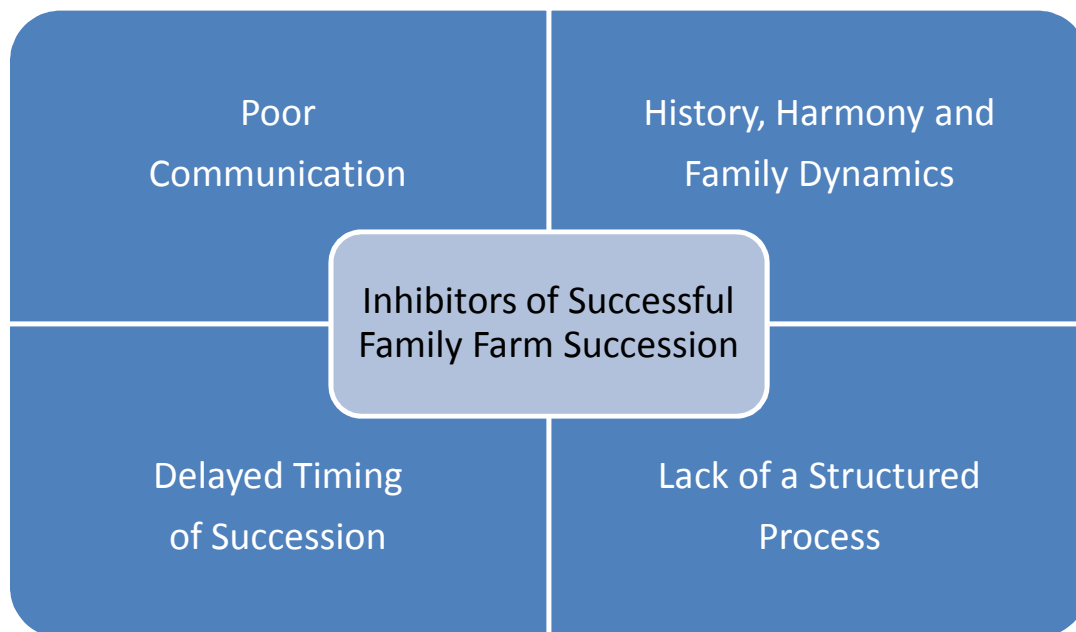


Figure 1: Categories of inhibitors to successful family farm succession

In the remainder of this section I expand each of these four categories, and describe the major contributing factors that exacerbate these inhibitors.

## **6.1 Poor Communication**

Communication is critical to success in any process that involves people. This is especially true for succession. This section details the major factors relating to poor communication in succession.

- Poor or non-existent communication (McLeod & Dooley, 2012)

Poor communication is the most significant reason why family businesses fail.

- Exclusion of some family members from succession discussions (McLeod & Dooley, 2012; Schoper & Baumann, 2011, De Massis et al, 2008)

Failing to involve all family members in discussions at some point can lead to misunderstandings resulting in conflict.

- Lack of communication about and understanding of current farm financial position.

Non-farming children often have unrealistic perceptions about the profitability of farm businesses, and the equity their parents have in the farm. These perceptions can lead to unrealistic expectations as to what is 'fair' to them relative to the assets the succeeding child is succeeding into.

- Failure to discuss the different needs, wants, fears and expectations of different individuals in the family (McLeod, 2009, McLeod & Dooley, 2012b)

McLeod (2009) found that family members thought that they understood the other generation's worldview and what they needed in the future for themselves, family members and the family business. In fact, these thoughts were simply perceptions. These perceptions can lead to misunderstanding as they are influenced by the previous generation's own experiences and unmet needs being transposed onto the following generation.

- Lack of transparency around succession planning (McLeod, 2009; Massis et al, 2008; Osborne, 1991, Vozikis et al, 2012; Little & Taylor, 1998)

A lack of transparency is cited in the literature as being a significant cause of failed management transfers. Little and Taylor (1998) found that the majority of young adults thought their parents had done more planning around succession than had taken place. This can lead to false expectations with regard to the ease with which succession may take place.

- Passive communication styles (Kaplan et al, 2009)
 

There is often considerable emphasis placed on what is implicitly understood rather than clearly communicated. If understandings don't align it can lead to conflict and misunderstandings.
- Family members "Mind-reading" and making assumptions about other members (McLeod, 2009; Schoper & Baumann, 2011, McLeod & Dooley, 2012b)
 

Often family members base thoughts on their perceptions of what other family members may think. Making such assumptions can lead to misunderstanding within and between generations.
- Meetings regarding succession are often irregular, informal and delayed (Vozikis et al, 2012; Little & Taylor, 1998)
 

Infrequent conversations results in a lack of transparency around progress and thinking around succession. This leads to doubts and uncertainty with regard to the what, when and how of the succession process.
- Lack of planning (McLeod & Dooley, 2012b)
 

Uncertainty surrounding business confidence and the plans of each generation can lead to delays in planning. If there is no planning there is nothing to communicate.
- Issues around what is fair, and equitable versus equal<sup>1</sup> can create problems if not discussed, understood and accepted by all involved (McLeod & Dooley, 2012b)
 

For succession to occur the farm must be financially viable. For this to occur it is likely that siblings will receive an equitable distribution rather than an equal one. If non-succeeding children fight for an equal share, succession may not be possible.
- Management of the expectations of the next generation to ensure they are realistic (Rural News, 2011)
 

It is important to raise children with realistic expectations about succession to avoid disappointment and family disputes.
- Assuming a conversation is a contract (Schoper & Bauman, 2011)
 

Informal conversations about succession can lead to the development of unrealistic expectations. Problems can ensue when children coming home to the farm are told things such as "work hard and one day this will be yours".

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<sup>1</sup> Equal means the same amount, equitable means a fair and impartial amount. The value of farm assets and the return on those assets from farming mean it is rarely possible to distribute a cash amount to the non-farming siblings that is equal to the value of the farmland and assets of the succeeding child.

## 6.2 Lack of a Structured Process

The definition of process is “a series of actions or steps taken in order to achieve a particular end” ([www.oxforddictionaries.com](http://www.oxforddictionaries.com)). Failing to follow a defined process leads to a lack of coordination, increased complexity and delays in achieving that particular end. Succession is a complex issue, and the lack of a structured process further exacerbates this.

This section details the major factors relating to the lack of a structured process in succession.

- No process (McLeod, 2009; Walsh, 2011)

Failing to follow any process often results in sub-optimal results and the dissatisfaction of one or more of the parties involved. It is often a lack of procedure to the process that prevents the required outcomes from being achieved.
- Unprofessional approach to succession (McLeod, 2009)

Approaching succession in a hap hazard manner, not following a defined process can lead to a breakdown in communication and strains on family relationships. Misunderstandings develop from the lack of transparency and uncertainty that ensues.
- Lack of governance processes within the business (Rural News, 2012)

Good governance is critical to an effective succession process. Farmers must separate the day to day operating of the farm (working IN the business) and governance issues (working ON the business). A lack of governance processes results in a lack of clarity around the direction of and opportunities for the business. The need to think through those unaddressed factors during succession planning increases stress and burden to the process.
- Lack of consideration by older generation regarding how they will retire (McLeod & Dooley, 2012b)

Lack of consideration about how the older generation may retire leads to uncertainty for the next generation. The older generation should at least consider acceptable options for their retirement so both management succession and financial requirements for retirement can be planned. If the older generation wants succession to take place, but does not want to ‘retire’ they must be clear about this so that strategies can be developed to ensure a strong working relationship/partnership is maintained with the succeeding generation.
- Lack of transitional roles for incumbent and successor (Massis et al, 2008)

A clear role for the successor during the process is essential. If the successor’s role during the process is unclear, they may lose motivation and look elsewhere for opportunities for increased job satisfaction and autonomy. The incumbent and successor must each have clear areas of responsibility within the business.
- Lack of transparency and certainty for the incoming successors (Collier, 2007)

A significant de-motivator for an incoming successor is a lack of clarity and certainty around succession. The incoming successor (and incumbent) must clearly understand what will happen, when it will happen, and how it will happen.

- Indecision in relation to children's career choices (Kaplan et al, 2009)

Lack of certainty around children's career choices can lead to significant delays in the succession process. Parents often avoid putting time pressure on a child to make a decision. Where one child has a clear vision for their life on-farm, other siblings' uncertainty can create delays.

- No distinction between family time and business time (McLeod, 2009)

If time is not set aside to discuss farm business issues these discussions can dominate family time. Family time should be a time for the family to enjoy each other's company, not to make business decisions.

### **6.3 History, Harmony and Family Dynamics**

Each and every family is unique. Each has their own way of communicating with each other and showing how they feel. This is shaped by the history of the family, the personalities within the family, and the strength of relationships family members have with each other. These factors have a significant impact on the 'soft' factors of succession process.

This section details the major factors relating to family history, harmony and dynamics with respect to succession processes.

- Unresolved issues within the family (Kaplan et al, 2009)

Unresolved issues and uncertainty within the family can lead to significant delays in the succession planning process, leading to dissatisfaction and uncertainty for the whole family.

- Existing family dynamics preventing adequate contributions from some members (McLeod & Dooley, 2012b)

The relative 'standing' and power of each family member may prevent some members from adequately contributing to the discussion. This can result in a lack of honesty or openness and lead to disappointment for some.

- Conflicts, rivalries, and competition in the parent-child relationships, and among family members (Vozikis et al, 2012)

These issues can make successful succession a challenge due to the lack of trust and confidence that the family members have in each other and their behaviour. These inherent relationship factors must be acknowledged. Strategies should be developed to manage

these relationships through the succession process. Professional facilitation may be required to manage family members through the succession.

- Failure to acknowledge any 'elephants in the room' (McLeod, 2009)  
By failing to ask critical questions, relating to past or current events, current feelings and attitudes, unrealistic expectations may develop. This can lead to conflict and lack of buy-in to the process.
- Concern about the stability of the successor's relationship with their partner/wife/husband (Kaplan et al, 2009; Schoper & Baumann, 2011; Coleman, 2011)  
Concerns with the relationships of the potential successor can lead parents to delay the process due to concerns regarding what would happen with the farm if the relationship was to fail. This can be extremely hard on the potential successor as they manage conflict between their parents and partner.
- Failure to understand and appreciate the view point of the other generation (McLeod, 2009)  
For succession to succeed each generation must step back and think of the feelings and views of the other family members involved. Failure to do so can result in unrealistic attitudes and expectations, leading to disappointment.

#### **6.4 Delayed Timing of Succession**

Delayed succession is an issue that is common across many families' succession processes. It can lead to uncertainty and a lack of clarity for family members if succession is delayed relative to the time frame that it is expected to take place within.

This section details the major factors relating to delayed timing of succession and explains how they inhibit successful succession.

- Incumbent's inability to let go (Massis et al, 2008)  
If the incumbent will not relinquish some control the potential successor may not be given the opportunity to develop skills and knowledge to manage the business. This can lead to dissatisfaction for the successor and cause them to leave the family farm in search of other opportunities.
- Fear of family conflict (McLeod & Dooley, 2012)  
Many families delay succession discussions as they see it as a sensitive topic that may result in conflict between members of the family. Delaying the discussion does not make it any easier to approach at a later date. Delaying may increase the likelihood for conflict due to further time for unrealistic expectations to develop.



- Differing attitudes towards change (McLeod, 2009)

Often the incumbent or off-farm family members will delay succession due to their perceived threats of changes in the family farm. This is occurring at the same time when the succeeding family member wants to put their mark on the farm business, which often involves change, with little sensitivity to other family members' feelings. Conflict often ensues, resulting in delays.

- Stress (Little & Taylor, 1998; Kaplan et al, 2009)

Stress is an issue for both generations involved in succession, with the most stressful times being those where significant decisions must be made. This can lead to delays in making those decisions. Little & Taylor (1998) found that acting on a decision alleviates the stress, even if that action is dreaded.

- Loss of identity for incumbent (Vozikis et al, 2012)

Succeeding management and ownership can make the retiring generation feel that they are not only losing their position but also their identity. "I am a farmer" becomes "I was a farmer". This loss of identity and uncertainty about their life in retirement can lead them to delay succession in order to hold onto what they know, enjoy and are comfortable with.

This section has illustrated that there are a number of factors that inhibit effective family farm succession. Recognising that there are a significant number of inhibitors is the first step. The next step is to develop and implement strategies and processes to neutralise the inhibitors to increase the likelihood of an effective farm succession.

The following section presents some simple recommendations to increase the probability of families successfully working through the process.

## **7 The Three Pillars**

In this section I present key actions that families beginning the process of farm succession should take to avoid the inhibitors, detailed in Section 5. Taking these actions will assist them in achieving a good outcome for themselves and their family members.

Succession is a process that an individual tends to experience at only two points in their life – once as the successor and once as the incumbent. Therefore it is not surprising that many people are uncertain about how to proceed, where to get advice, or how to begin the process. In this section I present three key underlying principles that are critical to the success of a succession process.

Each and every family is different, as is the farming business that they are involved in. Some families may need to concentrate on specific areas of a succession process, which may be less important to other families. The key thing is that a family develops and follows a succession process that suits them, the complexities of their family, and the farm business.

Figure 2, below, presents three pillars that form the foundation for successful farm succession. Each of these pillars of succession must exist. To ignore one of these significantly increases the probability of inhibitors of succession derailing the process, resulting in a range of undesirable outcomes from irresolvable disappointment for one or more family members through to full blown family conflict.

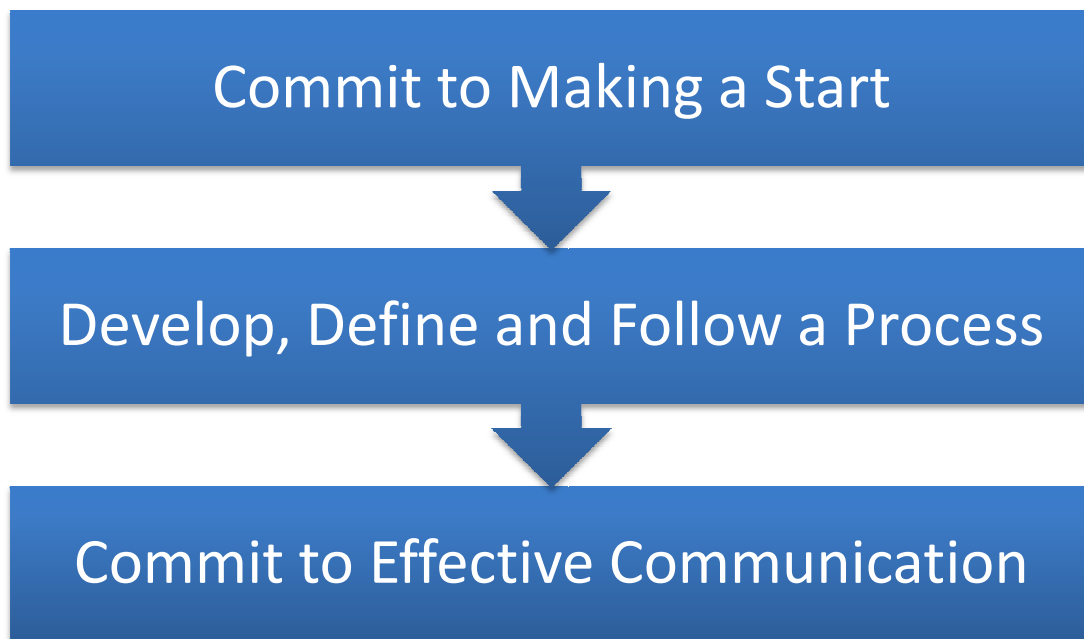


Figure 2: Three Pillars of Successful Family Farm Succession

The following sections provide further information on each pillar to successful farm succession.

### **7.1 Commit to Making a Start**

Succession is often delayed. It is an issue that is daunting for many to approach. It is something that is recognised as being critical, but one that falls victim to the day-to-day demands of farming. The uncertainty of the result and requirement to make hard decisions along the way also contribute to the procrastination around starting. Further contributing factors to delays in succession are detailed in section 5.4.

Many people advise that plans for succession should be developed from the time you start farming. In reality, this is difficult and not always practical. Financial planning can alleviate some of the

financial burdens and inequalities associated with succession. Likewise, strategic business planning processes can focus a family farming business on positioning itself to have opportunities for potential successors within the business. But, this does not deal with the 'soft' personal needs, wants and hopes of family members. Full succession plans, that take account of individual family members needs, can only be approached at a later time.

In my view, the succession conversation must start when any one of the following takes place:

1. One or more potential successors shows interest in farming

This conversation can take place from any time mid-teenage years on. This gives the child/children some clarity around whether there will be, may be, or definitely won't be an opportunity for succession in the family farm business. Likewise, when any member of the next generation returns to the family farm to work in a permanent role – whether that full time or part time – the family must have begun discussing succession. From that moment on expectations and assumptions, both for the child returning home and other family members, are developing.

2. One or more potential successors shows indecision about what they want to do with their lives, and they are considering farming

Discussing the opportunities, or not as the case may be, for succession at this time can assist in the decision making for the potential successor. Talking about what is possible, but also the needs, wants, expectations and perceptions of each family member can remove uncertainty and provide direction for all family members.

3. The parents settle on a timeframe in which they desire to retire, or are forced to through poor health

Planned retirement provides a clear timeframe within which succession must be well advanced. Ideally, this should take place prior to an incumbent being forced to retire as at that time serious family discussions about succession, when little has been discussed prior, adds further stress and pressure to an already stressful time.

4. One or more family members feel that some discussion around succession should take place

When a family member gets to the stage of regularly thinking about any potential succession, some discussion should take place. Needs, wants and expectations are

developing through this and it is important that they are aired, rather than being considered in a vacuum.

In the literature there is a range of opinions about who should start succession discussion. In their research on intergenerational communication, McLeod & Dooley (2012) found that commonly children feel that it is the parents' responsibility to initiate succession discussions. In contrast, they also found that some parents feel that it is the child's responsibility to initiate the process. Walsh (2011) proposed that the children should lead the succession process as if they are going to own and manage the farm business, they should be able to lead it through to a point where they are farming it in their own right.

Further complicating the start is that in initiating discussions neither generation wanted to be seen as being pushy or pressuring the other generation (McLeod & Dooley, 2012). This perception can be alleviated to some extent by choosing the right time and place to raise the topic. The fact that either generation feels it should be talked about shows that the topic is at a point that discussions must start. From this point forward there is increasing potential for inhibitors to affect the outcome.

Each family will be different in terms of the relationships that exist and personality of each of its members. These relationships and personalities will influence who will feel comfortable initiating discussions. The key point here is that someone must initiate the discussions, but the 'who' will be different depending on the family dynamics.

Making a start doesn't mean it all has to happen quickly – it is about starting a conversation. But, to start, you must start. Put a date on it. Not a 'next year' or 'tomorrow' type date – a defined date. Write that date down. Tell family members you wish to start discussing succession.

## **7.2 Develop, Define and Follow a Process**

In this section I discuss some key underlying principles of succession as a process. Acknowledging and addressing each of these underlying principles is critical to giving succession a good chance of success.

### **1. Succession must be considered as a process**

Succession is not a singular event; it is a process (Coleman, 2011; Walsh, 2011; McLeod, 2009). A process that in most instances is complicated, stressful and requires considerable effort to get agreeable outcomes for all parties involved.

It will require people to be patient; it will not happen overnight. But progress must be visible. The process needs to move at a pace that is comfortable for those involved – pressure (Walsh, 2011).

## **2. Feelings before Facts**

It is critical that the needs, wants, expectations and fears of all family members are taken into account in the succession process (McLeod & Dooley, 2012b). As such family members must be given the opportunity to voice their feelings about succession before factual information relating to farm financial situation is presented (Collier, 2007). This ensures each family member has the chance to express their desires, without holding things back that they don't think will be possible, or inflating their desires to get more of their share, as the case may be.

Each family member needs to be respectful of the feelings that other members of the family as succession advances. Farming is a major part of the identity of most farmers, and as such stepping away from farming is a major upheaval. Likewise, a young farmer taking over the farm is focussed on building their future and may be looking to make changes that don't rest easy with the incumbent. The critical thing is that everyone is open and honest with each other and that they work towards a common goal of successful farm succession.

## **3. Treat succession as an ongoing discussion, not one discrete conversation**

You do not have to have an answer after one conversation. McLeod and Dooley (2012) propose that the succession 'discussion' within the family unit should take place through a number of discussions rather than one discrete conversation. This allows family members to discuss their needs, wants and expectations, while also listening to and reflecting on those of other family members.

The family must be provided with a forum where they can discuss and express their views and decisions (Walsh, 2011). This allows the discussion to progress at each succession meeting. While sometimes it will feel as though the family is going back and discussing issues already covered, if this helps each individual synthesise the needs of others with a view towards the collective end, then that is progress.

## **4. Address the Financials**

While it is critical that the non-technical family issues are addressed initially in the succession process, the financial aspects should not be ignored. It is important that following an initial discussion, financial information is made available to the family members. Having

laid out their needs, wants and expectations, the family can then review this information and work towards an equitable solution within the financial constraints.

Collier (2007) lists the following financial information that should be presented to the family:

- Farm business:
  - Current cash surpluses (deficits) being generated from the business
  - Current business performance
  - Current assets, debt and equity
  - Insurance policies, their value and purpose
  - Existing structures
- Off-farm investments

The retirement needs of the parents should be addressed at this time too. Retirees often underestimate their retirement needs, so seek advice in this area.

## **5. Respect Differences in Personalities**

Different people often have different views on the same things; we are not all the same. All family members need to recognise there are differences in personalities and the influence that can have on family discussions about succession. Walsh (2011) advises that to effectively work together every family member needs to proactively understand each other's personalities and how they interact.

A range of personality tests are available that can assist in understanding the differences in personalities. Through completing such tests you not only develop a greater understanding of your personality, but also how best to work with people with different personalities to achieve desirable outcomes. One such useful test is the DISC test (Dominance, Influence, Steadiness and Compliance). This can be completed for free on the internet at

<http://www.123test.com/disc-personality-test/>

## **6. Develop a Vision**

It is critical to develop vision for the succession process – an end goal. The vision may require some refinement during the first few discussions, but once some clarity emerges around family members' desires, the vision should be set.

The vision plays a critical role as the succession process progresses. During the process a number of difficult decisions may need to be made. Having a vision can assist in two ways. Firstly, it can act as a reference point to assist in making that decision. Secondly, it can be a

motivator, as making that hard decision will take you a step closer to achieving the set vision.

#### **7. Include all Family Members**

It is important that succession discussions involve all immediate family members.

Maintaining family harmony is dependent on how involved all family members are in the succession process (Collier, 2007). Each family member must be included and have their needs and desires considered if the process is to yield a satisfactory result. This allows informed decisions to be made.

Immediate family members include in-laws. Not having spouses at meetings is a likely precursor to problems (McLeod & Dooley, 2012b). In-laws play an influential role in the lives of family members and as such can have a significant influence on the attitudes expressed and outcomes of the succession process. As such, they should be involved in the succession process.

#### **8. Build Flexibility into the Process**

While it is important to define and follow a process in succession, you must recognise that the process may need to change. Succession is a dynamic process and as such the next steps that need to be taken may evolve as the process advances.

Changes in family members' expectations, succession goals, strategy, or industry issues may alter succession requirements (Massis et al, 2008). Flexibility must be built into the process to allow for such changes to take place.

#### **9. Leading Succession**

The leadership roles in succession will likely change as the process advances. While it is likely that the incumbent will lead the initial stages of the succession process, there may be the need for the succeeding child to take the lead. Each family will be different, with different members influencing more and leading more at different stages.

The key point is that the incumbent should not feel that they must lead the family through the entire process. Likewise, leadership should be openly discussed as the process progresses to ensure that the appropriate person is leading and that any associated burdens are shared as much as possible.

## **10. Seek Advice**

Farm succession is a complex issue. You shouldn't feel that you must work it all out yourself. The key thing when seeking advice is to ensure that the advisor has the appropriate skills to facilitate your family through farm succession. In many cases, this will not be your current technical advisors, your accountant or lawyer.

Succession is centred on people, their wants, needs and desires (McLeod, 2009). As such the advisor must have skills in facilitation, conflict management and have considerable experience in helping families through succession. The skills that these people possess can assist you in maintaining a feeling of control around succession. If conflict arises they can assist with finding a solution before things escalate.

In selecting a suitable advisor select someone who you assess you and your family will feel comfortable with. You will be discussing personal issues and feelings with this person so you need to be at ease with them. Request contact details for some families that they have assisted in succession and contact them to understand to what extent the advisor assisted.

The cost of the advice is often the first thing considered when considering employing the service of an advisor. In reality, the key consideration should be what is the cost of getting it wrong?

## **11. All Family Members must Commit to the Process**

It is critical that all family members commit themselves to being involved in the succession process. To adequately communicate and contribute to succession each family member must have put some time and effort around common key factors relating to succession (Collier, 2007). This will help ensure that an outcome that is acceptable to all family members is achieved.

For some members contributing to the discussion may be quite hard and require some deep self-reflection. This will assist them in planning where they want to go in life, even if it isn't farm related. Everyone must commit to proactively contributing to the discussion.

Adhering to these underlying principles will assist in achieving a positive outcome in succession. While some will be more important than others for different families, each should be considered when starting, progressing through, and completing farm succession. It must be recognised that it will not be an easy process.



The actual step by step process for succession will differ between each and every family. As such it is outside the scope of this report to provide a step-by-step guide to succession.

### **7.3 Commit to Effective Communication**

The outcome of a succession planning process is dependent on family members' efforts to effectively communicate with each other. Achieving a desirable outcome is reliant on each family member showing a willingness to open and honest communication. A key component a successful succession is clear communication amongst each and every party involved.

Talking about talking is easier than talking itself. It is difficult to talk about succession issues. Each family member should recognise that it may be harder for some than others to raise the things they need to talk about.

Effective listening skills are also important. If a person that is actively trying to communicate senses that they are not being heard or listened to, they are unlikely to continue their efforts, or may let emotions overpower the point they are trying to make, resulting in misunderstanding. Each family member must invest themselves in communication.

The level of communication that is required will be uncomfortable for some family members at times. That may be as the communicator or the listener. Some family members may use the forum as a chance to vent on past events. Let them do it. It will help the process and the family move forward.

Acknowledge current relationships. Address any elephants in the room (McLeod, 2009). Each family member knows there are business and family issues that need to be dealt with. However, addressing and talking about these issues is often hard. They must be addressed though.

The onus is on each and every family member to commit to effectively communicating with each other.

## **8 Conclusion**

Succession is a process that is centred on a farming family, their land, and farming business. It is essential that the family and its members are a focus as succession is initiated, progresses and is finalised. Doing so will help neutralise potential inhibitors to a successful farm succession process.

Each and every family is different. The succession process that each family follows will differ. The key thing is that a process is followed, is thought through, and deals with the attributes of the family.

Family members must feel they have a voice, and an appropriately designed process will provide them with that opportunity.

If starting is daunting, think about what will happen if things don't start, succession discussions are avoided and no planning takes place? Will that be harder? Delaying starting allows expectations, realistic or not, to further cement themselves and assumptions to grow. This can lead to disappointment and resentment within the family.

Succession is a rare process that families go through so it should not be a surprise that it involves uncertainty. While this report outlines some key principles to assist farmers and their families in approaching succession, it will not contain all the answers to alleviate that uncertainty. If a farmer, or their family, is uncertain about how to proceed with their succession process they should seek assistance from outside advisors and succession experts. While a cost is involved, the personal and family cost of getting succession wrong is significantly greater.

Communicate, communicate, communicate – communication is a key to a successful farm succession process, and the building and maintenance of family harmony.

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## **10 Appendices**

### **10.1 Appendix 1: Succession Self Assessment Checklist**

In his book Family Business Succession: Managing the All-Important Family Factor, Grant Walsh presents a Succession Self Assessment Checklist. While I do not have permission to present this list in full in this report, it presents some valid steps that any farmer considering succession should think through. An electronic version of the book is available at the following web address. The checklist is presented on page 55 to 57. [http://www.kpmg.com/ca/en/services/kpmg-enterprise/centre-for-family-business/documents/3468\\_succession.pdf](http://www.kpmg.com/ca/en/services/kpmg-enterprise/centre-for-family-business/documents/3468_succession.pdf)

## 10.2 Appendix 2: Passing on the Family Farm – Checklist

The following checklist was developed by George Collier of ICL Ltd in Alexandra. This was developed to assist advisors in facilitating succession processes. It is a useful checklist for anyone involved in succession. George can be contacted at ICL Limited, Alexandra. His paper, Passing on the Family Farm can be accessed at

<http://www.iclca.co.nz/files/docs/passing%20on%20the%20family%20farm.pdf>

### Emotional considerations

- Has there been a clear articulation of the personal goals, needs and aspirations from all members of the family in the succession process?
- Is there a clear plan for preserving family relationships going forward?
- Has the entire family been involved and/or consulted about the process?
- How would you go about involving them in the process?
- Does everyone fully understand the outcomes and proposed strategies?
- Who is reviewing the plan from a family perspective and a professional perspective?
- How will the parents be involved going forward, once the succession plan has been enacted, eg, working on the farm?

### Financial considerations

- Is viable farm succession a reality? (sometimes the best succession is no succession)
- The parents' retirement income requirements are clear and there is a built in allowance for inflation and the other essential considerations such as new cars, world trips and any health issues.
- The financial aspects of the business are clearly understood by all parties involved, including the spouse and children, with respect to present profitability, cash surpluses being generated, assets, debt and equity.
- The overall succession plan is workable on paper
  - Have all opportunities been considered that are available including subdivision, off farm investment etc
- Does the farming business, once succeeded, have the capacity to continue to generate profits and cash surpluses and have the ongoing ability to continue to grow.
- Is the equity that is held within the farm able to be utilised off farm to build off-farm wealth for the non-farming siblings?
- Is the financial control passed on or retained at the appropriate stages?

- Is there any key person insurance required?
- What is the financial plan for non-farming children, particularly with respect to education, provision for first home purchases and starting their own businesses?

## 11 Acknowledgment

Thank you to the following organisations for their financial support of my participation in the Kellogg Rural Leaders Programme, 2013.



Thank you also to the Kellogg Rural Leaders Programme Partner Organisations.

