

FARM SUCCESSION PLANNING: A WORKBACK APPROACH

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Abstract

A typical farming family with a relatively large and very successful farm. Progressive and well managed. Incorporated with Mom and Dad as the common shareholders. A family farm in the truest sense. An eldest son and two younger daughters, one of which is living in a city in another part of the country and the other in Grade 11. The son wants to farm and has completed post secondary education. The farm has expanded recently, acquiring additional land, in anticipation of the son's return. The farm generates good levels of profit and carries a substantial debt load.

Mom and Dad had decided that they needed to have a 'succession plan'. They started with some research. They talked to their accountant, lawyer and an investment advisor. They collected a lot of great information and developed a really good understanding of the tax, legal and investment issues that needed to be addressed.

But they still did not feel comfortable with where things were at and as a result, set succession planning aside. After all, on a farm there is an endless list of things that need to get done that are seemingly more important than succession planning. A common occurrence, why is it happening? What changes are needed that will result in more farmers completing succession plans? Certainly, tax and legal issues must be resolved in a manner most suitable to the family. But from a family and farm business continuity perspective, the single most important consideration is the transfer of ownership and management.

A great number of farmers will comment that even with all the succession planning resources available to them, they still do not know what needs to be done, by whom and in what order. Applying process, with clarity of timelines and accountability, helps in working through difficult issues. The same holds true for farmers involved in succession planning. A comprehensive and integrated step-by-step approach to planning will enable farm families to work through the challenges associated with succession planning, helping to ensure that more farms are able to successfully transition ownership and management to the next generation.

Keywords: succession planning, transition, farm management, process

Subtheme: strategic direction, integrated planning

Introduction

There is, and correctly so, quite an emphasis placed on the importance of farms having formalized 'succession' plans in place. There is a lot of discussion within the industry trying to understand why more farmers are not actively working on this important issue within their farm businesses. Since the early to mid 1990's, there has been a considerable amount of government and industry emphasis on the importance and urgency of succession planning for farms. Demographic trends suggested an aging farm population and this appears unchanged. A recent Canadian study, co-authored by the George Morris Center and the Royal Bank, reported that more than 120,000 farmers will reach age 65 in the next 10 years. More than \$50 billion in farm assets will change hands as those farmers exit the business. Yet an alarming number of farmers still do not have a formal plan in place.

Conferences and workshops with specific succession planning themes are conducted regularly. Print media frequently features articles on succession planning. Farm associations and organizations focus attention on the issue. All without any substantive change in attention to farm succession planning. One could conclude that the issue, from a farm management perspective, being virtually unchanged in the past 10 years, is no more urgent or important. However, farms are increasingly larger and more complex. This fact, coupled with the reality of rapid change within the industry, points to the need to gain a better understanding as to why more farms are not formalizing succession plans and to the need to develop and provide resources that enable and result in more planning.

Succession Planning

There is no shortage of articles, checklists, discussion and resources on succession planning. There is information about what succession planning is and the do's and don'ts that are part of it. There is information on issues and about common elements such as:

- Family harmony and conflict,
- Plan initiation,
- Control and fears,
- Farming and non-farming children,
- Fairness and equitableness,
- Tax planning, and
- Wills and other legal documents.

There is, for a significant number of farmers, some confusion between succession planning and estate planning. What is included in the two planning processes, and how they interact, needs to be clearly understood by the farm families who are starting to plan for an intergenerational transfer. Both include important elements that need to be resolved and become part of the overall plan to transition ownership and management to the next generation.

Farmers who do not have a formal plan in place cannot claim that they have not been made aware of the importance of succession planning and/or the availability of associated resources. On a widespread basis, government and industry have unilaterally and collectively published documents designed to help farm families with their succession planning. There are resources that are made available at no cost. There are resources and services that are fee based.

Same Old

Succession planning resources, such as conferences and print materials, are still presenting the same issues that were on agendas and in documents 10+ years ago. As noted, farms are changing and there are looming issues and associated challenges in the skill sets of advisors and the resources that available to them, including their understanding of farm succession planning and how it pertains to the needs of present and future farm businesses.

Key Question

This then collectively begs the question “Why do more farms not have succession plans in place and just what are the succession issues”? And, “Why do we need yet another resource on Succession Planning”? Interestingly, this is not just a farm issue. Similar issues and dynamics exist in all small to medium sized family owned and managed businesses. The answer to the first question is why there is a second question. If succession planning issues were well understood by farmers, there would be more plans in place and with them, the likelihood that additional resources would not be required.

The author had the opportunity to lead numerous succession planning workshops this past fall and winter, involving over 200 farmers and farm family members. In virtually every instance, when queried, not surprisingly, no family had a 'succession' plan in place.

Typically, Mom and Dad had decided that they needed to get a plan in place. Some were starting by attending the seminar. Some had started by doing some research. Several had talked to their accountant. Some had talked to their lawyer and others had met with an investment advisor. The majority had talked within the family. They had collected a lot of great information and developed a better understanding of the tax, legal and investment issues that needed to be addressed.

But based on some comments and discussions, many still did not feel comfortable with where things were at. And herein lies the problem and one of the main issues. Even with all the attention on succession planning, farmers generally remain unsure, even confused, about what succession planning is and more importantly, how to go about it.

Certainly, the tax and legal issues need to be resolved in a manner most suitable to the family and beneficial to the business. While understandably each of these professional advisors tends to speak to the issues from their personal experience and area of professional expertise, farmers have difficulty in putting the discussions and information in the right, **and collective**, order.

From a family and farm perspective, the succession planning or inter-generational transfer scenario, the single most important element is the transfer of ownership and management. It is not an event or a series of meetings with advisors. It is a process – a process that can be thought of as business continuity planning. A comprehensive succession plan, especially for larger and more complex farms, should articulate the strategic direction for the business. This helps to align ongoing farm management with the intergenerational transition, increasing the likelihood that the farming business remains viable and profitable. This critical piece is often overlooked by families who are working on their succession plans. If the planning does not leave a healthy business plan in place, the succession plan will fail. All businesses are built to be sold ... even if the 'sale' is intergenerational. The better a business has been built (the more profitable it's been), the better positioned it will be to be sold; the greater the likelihood of a successful intergenerational transfer.

Workback Approach to Succession Planning

As mentioned, farmers are at best, not sure what needs to get done and in what particular order when contemplating succession planning. At worst, they become frustrated and avoid the issue altogether. The author regularly talks to farmers who realize that they need a succession plan; who are motivated to get a plan in place and who are, at the same time, frustrated in their attempts and questioning what they should be doing.

A large number of the available resources outline steps within the process of developing a succession plan. What is not so readily available is a step-by-step approach that defines the process in an orderly fashion. Do this first, then do that until all aspects of developing a succession plan have been completed.

One of the challenges in guiding farm families through succession is a lack of understanding, by the farmer, on the amount of work there is in developing a comprehensive plan and how much time it will take. This is even more of an issue for farms as they become larger and much more complex.

Initial Meeting

An initial meeting is required to:

- engage the family,
- review expectations,
- determine timelines,
- determine who will be involved in the process,
- begin establishing relationships and open lines of communication, and
- formally begin the process.

Two of the more important outcomes of the initial meeting are determining the timelines associated with the succession planning process and determining who the participants will be. One of the more common issues with succession planning is the length of time it takes to get the plan completed. First, most farm families significantly underestimate the amount of time it will take to work through a comprehensive succession planning process. Certainly it is possible to meet with lawyers and make the necessary adjustments to wills and other legal documents. Meet with accountants and develop appropriate strategies to manage tax issues. But a comprehensive, farm business driven succession planning process requires multiple meetings and, when factoring in all the other farm business management responsibilities, it takes a long time. The second timing aspect is drift. Lack of accountability (no third party requirement or deadline), denial and/or procrastination (human nature) and/or more urgent management priorities all can result in succession planning drift. This often causes frustration within families. In some instances to the point where serious conflict arises over the lack of progress, causing problems with the planning process in a negative reinforcing loop – conflict over the lack of progress resulting in less attention to the planning process resulting in less progress resulting in more conflict.

The succession planning process as outlined in this paper uses a Workback Schedule that is designed to help alleviate the above noted issues and concerns. The initial meeting requires that the farm family set a completion date. Once set, the planning process works back to the initial meeting date. The components of the planning process are identified in detail and in chronologic sequence. There are several milestone components, or components that must be completed before moving on to the next planning activity. There is variability in the amount of time required to work through each planning component.

The family is able to visualize what needs to happen, in what order and compare the planning activities against the timeline objectives. The planning process includes a lot of work that the family has to do on their own time. If there is a desire to work through the planning process as expeditiously as possible, the family has to commit to making the effort to 'get their homework done'. If the family realizes that the commitment required to meet the Workback timelines cannot be met, then adjustment to the timelines can be made. Family members participating in the succession planning process will develop expectations that are associated with timelines. Setting unrealistic objectives for planning timelines often results in frustration and potentially conflict.

Another benefit of the Workback approach is that the schedule can be sent to non-farming children who live far away and cannot physically be part of the process. They can see the process that is being followed. Telephone calls can talk specifically to the planning element that is currently being worked through, understanding what is being done and what the next step is. Without the clarity of the Workback Schedule, it is very difficult for family members who are living apart to know what is going on. One of the causes of conflict are family members not feeling part of the process or feeling like they have not had the opportunity for input. The Schedule can be used effectively to avert such problems.

The actual planning process can be organized into three phases. Readiness Assessment. Plan Development. Plan Implementation.

Readiness Assessment

It is very difficult, if not impossible, to determine if a farm is actually 'ready' for succession or intergenerational transition. Years ago, the process of transitioning a farm to the next generation was well understood and relatively straight forward. But as farms have grown in size and complexity, the process has become more involved. It is generally accepted that these trends will continue which makes it increasingly important that farms work through a Readiness Assessment prior to investing the time, money and emotional resources in developing a succession plan. There are farms that are simply not ready to be transitioned. It is far better to come to this realization early on and easier for ownership and management to make the necessary adjustments before beginning to work through the process. Or worse, realizing during plan implementation that there are issues that should have been resolved much earlier. In some instances, the Readiness Assessment can help to divert conflict.

The Readiness Assessment includes quantified and qualified assessment. The steps include:

- Setting goals
 - Looking for convergent and divergent goals
- Values
 - Determining how core values are aligned
- Financial Performance
 - Determining the farm's financial capacity
- Management
 - Determining management strengths and weaknesses
- Personalities
 - Examining personalities and behaviours
- Historical Business Development
 - Documenting key, historical business development and correlated management rationale

The Readiness Assessment Phase concludes with a 'communication meeting', or a meeting with all family members who have been identified as being part of the planning process to review their 'readiness'. Simplified, it is a go / no go meeting. If the farm is generally ready, then the planning can continue. If not, then ownership and management can take the necessary steps to get it ready before proceeding.

Plan Development

Data analysis is as good as the data entered and used. The same can be said for succession planning. The plan is as good as the process that is followed and the detail of activity within the process. The Plan Development process as outlined below is quite structured. There is a risk that farm families get bogged down in the planning, resulting in situations where they circumvent steps or, worse, discontinue altogether. The Plan Development Phase is best served when it is championed by an external facilitator. The facilitator must manage participant commitment and involvement against expectations, timelines and desired outcomes; keeping the process moving, knowing just how much time to spend on each step and knowing when to circle back to issues that need to be discussed and re-clarified.

- Strategic Direction
 - Mission, Vision, Situational Analysis (SWOT – Strengths, Weaknesses, Opportunities, Threats), Critical Issues, Key Performance Indicators (quantified and qualified), Actions
- Communication
 - Communicating what the strategic direction is to all stakeholders
 - Declares the direction that ownership and management have determined
 - Provides an opportunity for input and comment
- Business Plan
 - An optional step. Business plans should be developed but are not a critically essential element of succession planning.
- Risk Assessment
 - Planning should include an assessment of the universe of risks that can impact upon a farm, with the assessment considering implications with specific relevance to succession planning.
- Communication Plan
 - Differing from communicating to family stakeholders, the planning process should detail how and what is going to be communicated to what internal (employees) and external audiences (lenders, landlords, industry and business associates). How disputes are going to be resolved should also be communicated.
- Governance
 - Planning must include discussion on governance or how the farm will be organized and managed. Governance discussion should include organizational charts in their present and future form (5 years hence). This is very helpful when determining professional development plans for key family members and farm employees.
- Preliminary Legal / Accountant Review
 - Progress made to date should be reviewed by lawyers and accountants before moving forward with the planning process. It is important to get their input and factor any adjustments that may be required into the plan developed to date.
- Human Resources
 - Attention to the farm's human resources is a critically important element in succession planning. Consideration should be given to employees, their roles and performance. As or even more importantly, consideration must be given to the farmer(s)' own human resource – how they manage their time. Ownership roles, responsibilities and accountabilities within the planning process should be defined.
 - Training and related professional development must be aligned with human resource management.
- Estate Plan Elements
 - Components of an Estate Plan are an essential, associated component of succession planning and include:
 - Retiring generation needs
 - Estate distribution
 - Wills, Powers of Attorney, Executors, Guardians
 - Tax management strategies
 - Insurance
- Compensation
 - The planning process must include discussion that results in determining how the participants and stakeholders are going to be compensated. This is often a very charged discussion resulting from differences in the compensation that will be received and an expectation of entitlement.
- Deal Breaker Issues
 - This planning step is strategically situated immediately after the compensation discussion. The perceived unfairness of compensation can be strong enough that

participants will choose to opt out of the planning discussion and ongoing farm involvement altogether. It often uncovers disagreement in other areas of the planning discussion that had not been satisfactorily resolved in earlier discussions.

- Agreements
 - Agreements should be drafted, discussed and made ready for presentation to lawyers and accountants.
- Communication
 - This is an appropriate time to communicate plan development with stakeholders who are not able to actively participate in the planning process.
- Entities Structure, Accountant and Legal Counsel Review, Plan Adjustments
 - At this point, the plan is nearing completion, pending any adjustment needed subsequent to a final accounting and legal review.
- Communication
 - The plan is now finalized and the finished document is shared, as per the direction of the family, with stakeholders, both family and external such as lenders, landlords, key employees, business and industry associates.

Workback Schedule Example

Sample Farms Ltd.
Transition Planning Workback Schedule

Phase	Action Item	Sub-Action Item	Responsible Party	Start Date	Complete Date	Mile-stone Event
Initial Meeting	Engagement		All			Y
Readiness Assessment						
	Goals		All			Y
	Values		All			Y
	Financial Performance		All			Y
	Management		All			Y
	Personalities		All			Before Org. Structure
	Historical Bus. Dev.		Joe			N
	<i>Communication</i>		All			Before implementing
Plan Development						
	Strategic Direction		All	April 27/09	June 15/09	
		Mission / Vision				Y
		SWOT analysis				Y
		Critical issues				Y
		KPI's				Y
		Action Items				Y
	<i>Communication</i>		All		June 30/09	N
	Business Plan		All	June 1/09	Aug 15/09	optional
	Risk Assessment		All	July 15/09	Aug 15/09	N
	Communication Plan					
		Internal / External	All	June 15/09	Jul 15/09	N
	Governance					
		Components	All	June 15/09	Jul 15/09	N
		Organization Structure	All	June 15/09	Jul 15/09	Y
	Preliminary Legal / Accountant Review		All	June 15/09	July 15/09	Y
	Human Resources					
		Job list by mgt. area	All	June 15/09	Jul 15/09	Y
		Job descriptions	All	Jul 15/09	Aug 15/09	N
		Performance review	All	Jul 15/09	Aug 15/09	N

		process				
		Roles, Responsibilities and Authority (transition)	All	Jul 15/09	Aug 15/09	Y
		Training / Skill Set Program	All	Jul 15/09	Aug 15/09	N
	Estate Plan elements					
		Retiring generation needs	Mom/Dad	Aug 15/09	Sept 15/09	Y
		Fears	Mom/Dad	Aug 15/09	Sept 15/09	N
		Estate distribution (fair / equal)	Mom/Dad	Aug 15/09	Sept 15/09	Y
		Wills, Power of Attorney, Executor(s) / Guardian(s)	Mom/Dad	Aug 15/09	Sept 15/09	N
		Tax Management (Income, Probate)	Mom/Dad	Aug 15/09	Sept 15/09	N
		Insurance	Mom/Dad	Aug 15/09	Sept 15/09	N
	Compensation					
		Ownership / Management / Labour	All	Sept 15/09	Oct 1/09	Y
		Stakeholders / Entitlement	All	Sept 15/09	Oct 1/09	Y
	Deal Breaker Issues		All	Sept 15/09	Oct 1/09	Y
	Agreements			Sept 15/09	Oct 1/09	
		Unanimous Shareholder Agreement	All	Sept 15/09	Oct 1/09	Y
		Business related agreements / contracts	All	Sept 15/09	Oct 1/09	N
	<i>Communication</i>		All		Oct 1/09	Y
	Entities Structure		All	Oct 1/09	Oct 15/09	Y
	Accountant Review		All	Oct 15/09	Nov 5/09	Y
	Legal Counsel Review		All	Oct 15/09	Nov 5/09	Y
	Plan adjustments		All	Nov 15/09	Dec 15/09	Y
	Acc't. / Lawyer sign-off			Dec 15/2010	Jan15/2010	Y
	<i>Communication</i>		All	Jan15/2010	Jan 31/2010	Y

Plan Implementati on				Jan 31, 2010		
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Conclusion

Not knowing where or how to start working through a succession plan can be a real stumbling block for farmers. Most farmers have not worked through the process before. Farms today are, and in the future will be, significantly more complex than what they were even 10 years ago, let alone perhaps 20 or 30 years ago when the last transfer may have taken place. Further, the whole issue is easy to defer. Not much will happen, other than in the event of a family crisis, that will in the short term adversely impact on the business if the planning is deferred a couple of weeks, which typically turns into a couple of months and which pretty soon becomes another year. It is really difficult to measure the cost of deferring planning for succession. But, for most farms, there very likely will be a cost at some point in time. The ultimate cost can be a farm that cannot be transitioned to the next generation. But, it may even be more basic than that. Farmers like to 'farm'. Generally, they would rather not be involved in meetings that can include abstract thought and discussions about feelings and 'what they think'. Especially when the meeting might end up with conflict.

A detailed process that aligns timelines and expectations and outlines what needs to be done and in what specific order will help farm families manoeuvre through the minefields of succession planning.

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