

Succession Planning in Cotton Families

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Introduction

The issues of succession planning does not only relate to cotton families, or farming families for that matter, but is a world wide issues for many small, medium and even large business where ever more than one family member is involved in the ownership of that business.

Succession planning has been a notoriously contentious issue over time as it is a dynamic, ever changing process that has all too often been treated as static. Succession Planning is often incorrectly addressed as a one off event that occurs when the matriarchs of the family decide the time is right, and this can even be at the reading of their Will.

However every time there is a birth, death, marriage, children finish school, failing health, etc there is a direct impact on the 'succession' of the business. The ever-changing nature of the human life cycle dictates that when we are farming as a family there will be complications. When does a child become an adult? When does this adult become part of a new family unit? When does the child become the parent? When does the parent become the child?

The matrix is complex and ever changing, and the farming family of the 21st century needs to plan to survive. History does has a habit of repeating itself, and just as poor planning has been the demise of farming families in the past, it is the current generations responsibility to ensure this does not happen in the future.

Succession

Succession is defined as *"Following in order, a series of people or things following each other. Succession to the throne, or to an inheritance or position, the right of doing this, the sequence of people with this right"*. Therefore, succession planning is the process put in place to ensure the above occurs in what is regarded as a fair, equitable and orderly manner.

However as Mrs L Johnston at the 2nd international Conference on Women in Agriculture pointed out:

"In an industry that has such considerable capital investment, we select the next generation of executive management by random genetic selection in the bedroom and then discard 50% of the result at birth by virtue of their gender"

She goes on to point out that in farming our selection criteria for management is based on:

Birthright rather than talent

Duty but not necessarily vocation

Gender instead of ability

Pedigree but not necessarily intelligence

Inheritance irrespective of qualification

Whilst this paper is not going to dwell on the merits of **who** should be the successor to a farming business, it is important to note the above when considering yourselves lateral thinkers in the whole succession planning game.

Planning

“Those who fail to plan, plan to fail”

Why do we need to plan? Births, deaths and marriages – it is about coping with change and remaining economically viable whilst meeting family members personal goals and aspirations. Succession planning in farming families is often focused on the ‘farm’, however there is much more to succession planning than the physical asset. Succession planning is not just about planning how to keep the farm – it may well be about planning to sell it. All too often the planning process tries to deal with the physical asset ignoring the human side.

The Human Side of Succession Planning

The best lay plans will come undone if the human aspect of succession is not considered first and foremost. The most economically viable business plan can be established, however if it does not meet the needs of ALL family members, it is doomed to fail. Succession planning is not an easy topic for families to discuss as it raises challenging issues such as aging, loss of control, and death. The longer families ignore the topic of succession, the more complex the matrix becomes with additions to families such as daughter and son in laws, children, step children, second marriages, deaths in the family occur.

There are many good resources to assist in tackling the human side of planning. One resource in particular, “Handing on the Family Farm – Lets Get Started” by Peter Talty (based primarily on the model used by Coolamon specialist succession planning Solicitor Bill Thompson) begins with a questionnaire. This questionnaire is intended for all family members, and asks personal, family and financial goal questions of the family members. It allows all family members to ‘have their say’, and asks the hard questions such as “Please describe what you would like to see happen to the farm in the future”, and “How would you like to be treated”. Farm family communication expert, Lyn Sykes, says that unless you get the issues surrounding communication and the family right, asset transfer will never be a reality other than death.

Children are always children to a parent, however there does come a time in a child’s life when it is not unreasonable for a parent to ask for a commitment or otherwise to the family business. Parents can reasonably expect children to start making decision regarding their future in the farm within 3 to 5 years of

leaving school. The issues of succession can be difficult ones, however the earlier on in a families development these can start to be discussed, the better off everyone will be. I have witnessed an elderly couple living in poverty, isolation and battling against failing health just to hang on to the farm for their 44 year old son who still hadn't made up his mind if he wanted to come home or not.

Finally, the family must agree on a common goal and vision. There is no point in going any further with the process unless all members agree on the basic fundamental issue of where the business is headed. This issue should be 'formalised' in a business plan, however if there is major inter-generational difference in how the business is to move forward, then you need to go back to the top of the human planning, and begin again – however this time everyone needs to LISTEN.

The Business Side of Succession Planning

If a family successfully negotiates their way through the human side of succession planning, the business planning stage, whilst being a lot of work, is far less complicated.

The three basic areas to analyse are:

1. Where are you now
2. Where do you want to be,
3. How are you going to get there

The 'Where Are We Now?'

The where are you now requires a situational analysis; it is the introduction to the 'greater plan'. The business plan needs to be professional and utilise the families advisor's (or find useful advisors). You need to look at issues such as human resources available; current enterprises and land and plant availability; lifestyle and personal needs of the various family units involved in the family business. Issues such as providing for one generations retirement whilst maintaining a manageable debt structure for the next needs to be considered. It is not very inspiring for a middle aged man with excellent management skills to still have 'jackaroo' status as well as trying to raise and educate a young family.

The 'where are you now' also requires a close analysis of existing Estate planning. All members involved in the business need to review their Will at this stage, and open and frank discussions need to proceed any further progress at this stage. It must be remembered that being fair may not always equate to treating all children equally. For example it is hardly fair for one of 4 siblings to be expected to 'buy out' at commercial values $\frac{3}{4}$ of the value of the family farm, but it may very well be an 'equal' thing to do. This is also where the sensible and skeptical get to legally formalise their views on ownership, in-laws and attempt to protect the farm against the impacts of such things as death and divorce.

The business also needs to undergo a strengths, weaknesses, opportunities and threats analysis (SWOT). This needs to be undertaken by the individuals involved, and is designed to identify where the business is not utilising its full potential, and what can be capitalised on.

The 'Where Do We Want To Be'

The 'where do you want to be' should have reached some broad consensus in the 'human' part of the planning, however here some concrete factors needs to be applied to the bigger picture. What does each generation want to have achieved in the next 5, 10 and 15 year's. You need to apply some real values here so that you can benchmark your progress and have a tangible goal to aim for.

Goals can be broken down by resource. What are the land and water goals – to be farming 1000 ha of sustainable cotton on a 3 year rotation basis with x size storage and z size water license. What are your plant and machinery goals – how heavily geared do you think the business should be? What level of machinery debt as a % of total value can the business comfortably carry year in year out? Human resources – do you want to have made provision for the older generation to have purchased a retirement block closer to town? Does a family member want to come home to work? Does the business need to plan to split.

The "How To Get There?"

This is where the hard work needs to be done. You need to consider how you are going to achieve the goals set out above. Here benchmarking needs to be undertaken – you need to compete against yourself every year. No one single indicator is of much use on a stand alone basis, however in conjunction with your farm advisor you can determine what factors are important to your business and what you need to be monitoring for improvement on an annual basis. Here you need to go back to the SWOT analysis and pull out the threats and weaknesses to your business and address these.

Strategies need to be implemented to achieve goals. Such strategies may be investing \$x per annum in off-farm investments to provide a contingency for family members who are not going to take over the family farm.

Finally, to get where the business wants to be, risk analysis needs to be undertaken. What if scenarios should be played out – no water, poor prices, impact of divorce – these things help road test the plan as mapped out.

Conclusion

In conclusion, you need to ensure that all family members have a working copy of the plan. Schedule half yearly or at least annual meetings with all stakeholders to discuss the progress of the plan. There will always be ongoing legal, financial and personal issues that will require the plan to be modified – the key is communication.