

## Success with Succession

Perhaps it's a comment on advancing years for me and the clients I work with or may be it is symptomatic of a greater focus on asset management for most of the businesses I serve. Either way, the topic of succession planning seems to be attracting a greater share of my attention.

It's an aspect of business management I find thought provoking – especially as I often hear Succession Planning talked about as if it's separate from the overall business plan. The way some refer to it implies it can be simply managed by a basic formula whereby 'one size fits all'.

On the contrary, I see succession planning as very much an individual exercise. It's one that must respond to the age and stage of the senior generation and the vision of those following on while accommodating a raft of commercial, personal and social considerations influenced by legal and lifestyle changes. It's a vital part of any good business plan.

### **Agriculturalists or Asset Managers?**

Unrelenting pressure on farm values, new land uses and opportunities for investment off-farm confirm that the most powerful driver of success in farming is effective asset management. I'm seeing those with such entrepreneurial abilities generate very positive progress.

With this comes a requirement to ensure the wealth created falls in the right ownership entities and enables its owners to retain, enjoy and eventually pass on these assets to the next generation.

Being on the sidelines of discussions between my clients and the legal and accounting fraternity suggests many farmers are unsure of how the various ownership options work, what advantages they offer and why they should be addressing this area. The risks from untimely death, matrimonial separations, the need for aged care or management of tax certainly highlights the value of getting these structures in place early.

This requires a legal and accounting team who can communicate what works in a simple way. Farmers need to insist on simple explanations from their professionals and always ensure they understand what they are doing before they sign on the dotted line. Ask for a flow chart, words of one syllable or recommended reading - just make sure you understand!

### **The Process**

As already mentioned Succession Planning is an individual process, however the process usually includes -

- ❑ how to enable the senior generation to continue their business activities with a choice as to how far and how soon they step back from direct involvement
- ❑ communication within the family that results in awareness of the ambitions and goals of the succeeding generation to ensure any plan responds to their varied needs in as timely way as possible
- ❑ separating core business assets from more tradable assets. The core business will tend to own those assets that will provide long term superannuation for the senior generation. Tradable assets will be less closely held and available for sale to generate resources for eventual distribution. Often the difference between these classifications is the degree of emotion or personal attachment to the asset
- ❑ transparency is essential to underpin equity and fairness in the treatment of the succeeding generation. The reality is its unlikely that all of the succeeding generation will be treated equally. However, communication and consultation that makes clear the rationale for differentiation goes some way to avoiding conflict or disagreements that can persevere long after the seniors have passed on
- ❑ diversification can be very valuable in strengthening prospects to retain the core business assets. I find clients who have developed relatively liquid assets through off-farm investment are often better able to manage changing circumstances in a timely way without threatening the base operation.

Succession Planning raises a number of sensitive issues that become magnified by the usual tensions of family relationships. Getting structures in place early, maintaining open communication and having a realistic approach on both sides will go some way to addressing this important part of business planning. There is no formula where 'one size fits all' – it's a matter of continuing to be driven by **who you are, what you stand for and what you want to be** – the three key questions that I believe drive any business plan.

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