

## ASK 18 – Succession Planning must begin early: January 13, 2005

Welcome to [ASK] - Always Seeking Knowledge!

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### 1. Quick [ASK]

Succession is a big subject. It is charged with so many emotions: people have to actually consider not only their mortality, but in some cases, years of activity very different to those they are now engaged in. They have to make choices about who does what and who gets what. They have to consider what is 'fair' v's what is 'equal'. More importantly, the older generation have to be ready to move on. It is not enough that the younger ones are ready to step up to the plate.

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### 2. Welcome

Two subjects to talk briefly about. Firstly, many people have met Dick Richardson, from Vryburg, South Africa. Dick has co-authored with Rio de la Vista their first book, and just a few weeks ago it was published. The book is called 'THE OGLIN - A Hero's Journey Across Africa...Towards the Tomorrows'. I have not yet read it, but am enthusiastically planning to do so.

Helen Carrell is the Australian and New Zealand importer of the book. You can download an excellent synopsis of the book and an Order Form from our web site [www.holisticresults.com.au](http://www.holisticresults.com.au) and then click on the 'Downloads' tab. You can also check out [www.oglin.com](http://www.oglin.com) where the first chapter is available free, as a pdf file.

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Over the last two years we have focused our activity in two areas: succession planning with emphasis on farm businesses, and of course our work redesigning the model to be readily applicable to ANY business, anywhere. We have made huge strides in that area, and are now starting to write a book about it. Our first non-rural customers have been very impressed with the approach we take. In particular, the 'Weak Link-financial' concept has been very important to them.

The great power of Weak Link-financial is that it allows people to focus on their core issue. There may end up being hundreds of decisions to achieve

the final result, but there is only ONE primary decision that has to be made first - where is the Weak Link right now? What we have found is that people appreciate the clarity and sense of focus it gives them.

This issue of [ASK] is focusing on succession planning. It distills the observations of both ourselves and others over the last few years. If there is one take-home message in this issue, it is this - it is never too early to begin succession planning. Set the wheels in motion when the children are young, in case they wish to join the business. And have a strategy in place in case they don't. It is almost too late to be working on the subject by the time they have been involved for a little while, because the lead times for transition are long and the task is complex.

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### **3. Succession planning**

The big issue farm communities always face, apart from grappling with the problems of industrial agriculture, is business 'succession'. Allan Nation, the highly respected editor of the 'Stockman Grass Farmer' newspaper which is published in Missouri, and widely read elsewhere, has an interesting viewpoint. He writes:

"The primary goal of succession planning should not be to transfer your farm or ranch to your heirs after your death, but to provide for a comfortable living for you after you give up day-to-day management. Whenever any industry starts to survive in the short term by consuming its young, as American agriculture has done, it ensures its death in the longer term. When the young can no longer find an easy way in, the old can find no comfortable way out."

Our analysis suggests that by and large, it is the same situation in Australia and New Zealand. We have to move beyond the next generation either being told by their parents that it is all too hard, or having the negative experiences that lack of early planning so often creates.

Succession is a big subject. It is charged with so many emotions: people have to actually consider not only their mortality, but in some cases, years of activity very different to those they are now engaged in. They have to make choices about who does what and who gets what. They have to consider what is 'fair' v's what is 'equal'. More importantly, the older generation have to be ready to move on. It is not enough that the younger ones are ready to step up to the plate.

There are complex legal and tax issues surrounding the whole process, and that is apart from timing considerations. Paradoxically, the timing of action seems to determine people's attitude to taking action, and yet it is their attitude to action that determines their timing. It is a closed loop unless people are prepared to break the circle, and breaking the circle seems to occur in one of three broad ways.

There is a small group of people who recognise the need for active planning, and usually begin somewhere between 5 and 10 years before the change might need to occur. These people enthusiastically prepare for the next generation to choose whether they will - or will not - be involved. They don't wait for the next generation to make the decision to come home, and then start the planning work. Because the planning period is long, there is

considerable opportunity to develop strategies and enterprise mixes that lead to the desired outcomes. And there is always an exit strategy if there is a change of mind by prospective incoming family members.

The far more common practice in succession planning is to wait until 'something happens', usually some time after the return of one or more of the next generation. This is by far the largest group of people to become involved in succession planning. The 'something happening' is usually son(s) or daughter(s) who have been home for 3 to 7 years, often married and starting a family, who are beginning to query their security in the business. Sometimes they have developed some equity in the business, often with livestock and sometimes with machinery, but usually there is no clarity as to how that equity can be redeemed without damaging the overall business.

This group tends to face more difficult questions about management roles and responsibilities; about authority (who actually has the cheque book); about remuneration - very often the younger person has worked for those years at a low wage, expecting a benefit in the end. Sadly, because of the overall lack of early planning, the expectations of what 'in the end' will deliver are often based on unrealistic assumptions. Overall, the older the next generation is before the planning begins, the less likely the transition is to succeed. If the next generation are in their early 40's, it is quite often too difficult, and the entire process often moves into confrontation. Occasionally the younger generation just give up, and I have worked with several instances where fathers in their 70's and 80's still had sole control of the cheque book. In one case father was closer to 90!

Confrontation is the most disappointing outcome, yet it is far more common than one cares to admit. Very often confrontation is initiated by the next generation reaching the point where a higher degree of certainty is required in their life. They are often demanding either some money or a share of the assets. Sometimes communication has effectively broken down. On occasions it is only conducted through a third party. There is often a reluctance by the older generation to hand over the reins, most often based on fear that the generation will lose what has been put together, or 'the young wife will take the lot'!

All too often the outcome of confrontation is the sale of the business and its assets, and too frequently divorce in the next generation, fulfilling fathers prediction.

So what are the factors that should be considered when setting about succession planning? They will be different for every whole, but are likely to include:

- \* A time frame for the transition to be completed - and that may well be 5 or more years;
- \* Development of strategies addressing:
  - the direction of the business during the transition;
  - fairness and equity considerations for other siblings;
  - location of residence of both the older and younger generations;
  - remuneration of each generation;
- \* A sensible financial plan that shows whether the strategies are likely to be achieved
- \* Risk management strategies - such as insurance if required

Finally, there should be an exit strategy in case things don't work as expected.

What to look out for

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- \* Make sure that any plan you develop is clear and simple - and properly understood by all parties
- \* That all parties actually want to be a party. Beware the returning son who feels obligated to keep farming, or the parents who feel obligated to leave
- \* That people end up with economic business units. Beware of the 'great gift': ie children gaining both the property and a mountain of debt that will either sink the business in the long run, or ensure a miserable quality of life for them
- \* That there are no strings attached. Don't rule from the grave.

Finally, I remind myself often of a comment made by my friend Will Leatherman. Will grew up in Mississippi, growing cotton. Laconic is the word that best describes Will. One day as we were driving past the cemetery at Bourke, NSW, Will motioned to me. "See that place over there", he said, "it's full of indispensable people!!"

Call us on 02 9929 5568 if you wish to talk about starting the process in your business. It is never too early, but it can be too late.

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#### **4. Update your Diary**

Introduction to Holistic Management

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NZ - February 15, 2005 - Heriot Community Centre  
WA - February 22, 2005 - Wellstead Hall

Holistic Financial Planning

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NZ - March 15, 2005 - Heriot Community Centre  
WA - March 22, 2005 - Wellstead Hall

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#### **5. Notices**

Suzie and I recently attended the launch of the Biotrack Australia monitoring product, watchH2O. Biotrack is a business owned by Macquarie University, and headed by Dr Mark Dangarfield. Mark is a Pom who arrived in Australia via time in Zimbabwe. For some years now he has been working on a simple yet scientifically valid monitoring process for eco-system health. His criteria was that not only must the data be immediately relevant at the monitoring point, but able to be instantly incorporated into regional and national biodiversity assessments. This product measures invertebrate activity in streams. Changes in invertebrate populations give a quick and reliable indication of changes in not only stream health but of course the catchment feeding the stream.

The current version will appeal to farmers, Landcare groups, local councils and other government agencies, and mining companies. This is a breakthrough

product in my view, and has application internationally, not just in Australia.

To get more information, call Mark on (02) 9850 8266, email him at mark@biotrackaustralia.com.au or check the web www.biotrackaustralia.com.au

Some people may be interested in an article written by John O'Brien, based in Melbourne. The article is entitled 'Designing Great Cattle, not Cattle with Great Numbers', and was originally published in Acres USA about a year ago. John argues that the current attention to EBV's of stock may be heading entire national beef industries into a trap. Its probably a discussion worth having, so if this is an area of interest to you, contact John on (03) 9529 8641 or 0410 273 887.

Finally, Peter Phee has written to advise that Dr Elaine Ingham is conducting a soil workshop on Feb 21 to 23 in WA. I understand this is her only planned WA presentation this year. Call Peter on 08 9575 1141 or 0427 351 142 or drop him a note at earthline@westnet.com.au I reckon you will enjoy this workshop.

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## **6. Books and Materials you can use**

"Cancer: Cause and Cure"  
Percy Weston  
ISBN 0646 403 133

Percy Weston is now 102. He lived his life at Myrtleford, Victoria. In this recently published book he talks about his farming life, and of treating his own leukaemia and two cancers. Percy really raises the 'Cause and Effect' test: he notes that despite billions of dollars spent in cancer research worldwide, the root cause has not been isolated. He says he is not surprised by this, as in his opinion, everyone is looking in the wrong place!

The thrust of his book is that cancers of all kinds, and also arthritis, are emergent properties of agriculture based on superphosphate. He traces the rise in the incidence of cancer to the advent of 'super'. Percy has a basic chemistry background. He is not arguing against phosphate applications - his concern is super and other high analysis derivatives. He is a great advocate of reactive rock phosphate, which he claims does not cause a problem.

This is one of those books we all need to read, so we know where to look for information should we ever need it. It is certainly challenging enough to make us re-assess our current farming practices. If Percy is right, and you have a holistic goal that includes effective ecosystem processes that are producing healthy food from your land, then he has issued a challenge that must be confronted. You can find the book on the web at [www.bookbin.com.au](http://www.bookbin.com.au) The Book Connection also stocks it.

By the way:  
Most books we recommend are available at The Book Connection in Dubbo, NSW  
Ph: 02 6882 3311 Fax: 02 6882 3311 or email [orders@bookconnection.com.au](mailto:orders@bookconnection.com.au)

(Also ask David Pankhurst about their Mail Order Catalogue - it is terrific)  
or  
Scorpio Books in Christchurch, NZ  
Ph: 03 379 2882 Fax: 03 379 2886 or email scorpbk@ihug.co.nz

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## 7. Quotes that mean something

"Dreams come a size too big so that we can grow into them. "  
-- Josie Bisset

"The key to most difficulties does not lie in the dilemmas themselves, but  
in our relationship to them."  
--David Seabury

"Use what talents you possess. The woods would be very silent if no birds  
sang there except those that sang best."  
--William Blake

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## 8. Joke

The children were lined up in the cafeteria of a Catholic elementary school  
for lunch. At the head of the table was a large pile of apples. The nun made  
a note, and posted it on the apple tray: "Take only ONE. God is watching."

Moving further along the lunch line, at the other end of the table was a  
large pile of chocolate chip cookies. A child had written a note, "Take all  
you want. God is watching the apples."

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any ideas contained herein towards your own holistic goal.

Regards, and keep well  
Bruce Ward