Step 4 - Create the Plan

Succession Planning

- ✔ Understand Succession
- ✔ Discover Expectations
- ✔ Examine Options
- ✔ **Create a Plan**
- ☐ Check with Experts
- ☐ Finalize the Plan
- ☐ Put the Plan Into Action

Once family members are clear about one another's dreams, fears and expectations, and after they have considered their many options, they can start putting together their succession plan. Create a draft plan which contains several possible approaches. Once these approaches have been discussed with experts (Step 5), the plan can be finalized. Creating a succession plan is a reiterative process. You will go back over the plan several times before getting a plan that satisfies you.

The succession plan, once complete, is a written document that covers the key aspects of succession. The plan should be reviewed annually to ensure that it is still consistent with circumstances as they exist.

The written succession plan will contain the following elements:

- a retirement plan
- a management plan complete with a program for grooming the successor(s)
- an ownership plan including an up-to-date will
- a contingency plan
- a timetable
- a plan to communicate the decision to the family

Retirement Plan

The draft retirement plan will contain the following components:

- a financial plan showing how retirement will be financed
- an agreement between the retiring manager(s) and the successor(s) about the extent of the involvement the older generation will continue to have in the business
- an agreement about where the various farm families will live
- some ideas about what activities will absorb the retiring generation's creative energies

Management Plan

This segment of the draft plan will contain:

- a plan that describes how the successor(s) will be trained to take over management of the farm business
- a process for selecting the successor(s) if there are several candidates

Ownership Plan

The draft plan will outline how the transfer of ownership will take place. The goal will be to transfer ownership so that the on-farm family members will have a business to run and the off-farm members will end up with an inheritance that is fair for them.

A will is an essential part of the ownership plan.

Contingency Plan

What would happen to your farm operation if the owner/manager were killed in an accident tomorrow? What would happen to your farm if the founder or heir-apparent divorces or remarries? Is there a well thought-out plan that would immediately come into effect or would the farm be thrown into chaos and its future left very uncertain?

Death or disability

While disability or untimely death are issues we don't like to think about, not doing so can leave the business vulnerable. If it is not clear who should take over, or if the successor is totally unprepared to take over, the business may experience irreversible damage. Should the family end up in a bitter dispute, the family and business will suffer and the lawyers may pocket the proceeds.

Some businesses name an outside advisory board to assist the spouse and family in handling the transition in the event that the owner/manager is incapacitated or dies. In choosing this advisory board, it is best to select people who have no vested interest in the outcome of their decisions. Their advice should be based only on what is best for the health of the business and the family.

Choose a course of action that suits your business and family. What is essential is that there be a contingency plan in case unfortunate circumstances should occur.

These plans need to address unlikely as well as the more predictable misfortunes that can befall families. Consider the following story:

> *The father and son had a 50/50 partnership which was working well. Contingency plans were in place in case the father died, so that Mom would be taken care of, without upsetting the business. But the son died suddenly, with no contingency plans in place. Problems arose about how to treat the son's wife and kids and about what to do with the farm.*

The story above stands in contrast to the one below which describes a contingency plan that worked.

> *When Mark Sanford was diagnosed with terminal cancer when he was in his early 40s, the family and business were understandably greatly concerned. A contingency plan was immediately put into place. Under the terms of the plan, Mark's 22-year-old son was named the successor. An advisory board was created to advise the son. Mark's wife, who was knowledgeable about the business but had never been involved in the day-to-day management, was a member of the board. After Mark's death, his son was able to learn how to manage the business well with the assistance of an able advisory board. Today, the Sanford Nursery is a prosperous, award-winning operation.*

When you take your draft plans to your expert advisors, you might want to discuss the option of assigning power of attorney for both the business and personal affairs. Have your advisor explain full and limited power of attorney.

Remarriage, especially of the founder, can dramatically alter the dynamics of both the family and the business.

Family breakdown

Could your farming business be left vulnerable in the event of a divorce or remarriage? Of concern to many family farms is what could happen if one of the heirs divorces and the spouse lays legal claim to a part of the farm. In order to settle, part of the farm may have to be sold thereby rendering it a non-viable economic unit. It's also important to consider what would happen if Mom and Dad get a divorce and one of them remarries. Remarriage, especially of the founder, can dramatically alter the dynamics of both the family and the business.

A plan needs to be in place to see that the business will keep going. Some families make use of pre-nuptial agreements to safeguard the family business in the event of marriage break-ups. Good records need to be kept so that you know who owned what assets going into a marriage and what was acquired during the marriage. The agreement should also include a system of how the partners will be paid out in the event of divorce so that the business doesn't have to be dissolved. Seeking the advise of a professional to assist in drawing up these agreements is advised.

Getting Started on a Contingency Plan

1. Imagine you have been killed or severely injured in an accident. Ask yourself the following questions:
   - What are the five most important things that would need to be done, as soon as possible, in the farming operation?
   - Who would do them?
2. Imagine one of the owners gets a divorce:

- What would happen to the land?
- What would happen to shares in the business?
- What would happen to management?

It isn't comfortable to ponder such questions as these, but this is the train of thought that needs to be followed to get you started in formulating a contingency plan.

Timetable

An old cartoon shows an elderly farmer, leaning on his cane surveying his farm and talking to his now-middle aged son. "Some day, son," he says, "this will all be yours." The frustrated son replies, "When, Dad, when?"

The "when" of succession planning is important. Owner/managers who never get beyond saying "some day I'll quit" are doing their successors and their business a great disservice. It can be hard to turn over the reins and trust the successor(s) to take over. And it can be very tempting to hang on just a little longer to make sure the successor is really ready. In some situations, the older generation has such difficulty letting go that the middle generation never does manage the farm because it is now time to pass it on to the third generation.

As in any other type of planning, attaching a timeline to your goals sets a standard and provides a guide by which progress can be measured.

Although preparing a successor is a lifelong process, most of the succession process can be done over a period of five to 15 years. This timeframe gives the successors time to get outside education and experience and to be groomed for the job they will eventually take on. During this time, the successors have an opportunity to learn the ropes and demonstrate their aptitude for the job. If there are multiple candidates, there will have been time to evaluate them and make a wise choice. Business consultants suggest that once a choice has been made, five years is enough time to train and test the successor(s) to ensure they can run the business well.

When everyone knows what will happen at a given time, each can make plans for the next stage of his or her life.

Given that succession planning takes up to 15 years, most business people should start preparing for succession in earnest while they're in their 40s or 50s with the intention of stepping down at age 60 or 65. Typically by this time, the successors will be in their 20s and 30s.

With a 15-year lead time, well orchestrated plans can be made and implemented. When everyone knows what will happen when, each can make plans for the next stage of his or her life. Mom and Dad can plan for their retirement. Second generation members can go forward with their careers knowing where in the scheme of things their talents and abilities will be used.

When you're creating your succession plan, include an estimated time when each of the steps in the plan will occur. These times don't have to be etched in stone - enough flexibility needs to be built in to allow for unforeseen circumstances that arise. But the times should be seen as commitments by which all players will attempt to abide.

Communicating with the Family

The more family members who can be involved in formulating the succession plan, the greater the likelihood that they will be in agreement with the plan. But it may be too complex to have all family members involved at every step in the succession plan. For those members who are not included throughout the process, thought needs to be given to determine the best method of keeping them informed.

Included in the succession plan should be a plan for communicating the decision to family members and others working in the business. In the first step of succession planning, discovering expectations, it was strongly advised that all family members, including in-laws and those family members not working in the business, be involved in the process. The more communication with the family that occurs throughout the planning process, the fewer surprises there will be at the end.

Some families avoid giving too much information about plans for succession for fear of offending someone. The result is that few people understand what process, if any, was used to make the selection and may resent the decision that was reached.

Once a decision has been made about who the successor will be, the decision needs to be conveyed with sensitivity to other family members. The message needs to describe the process that was followed in selecting the successor.

Information about succession also needs to be conveyed to non-family employees in the business. These people will be affected by the change and it's better they receive information in a formal way rather than via rumour or the grapevine.

Your business may have associates outside the business whom you may want to inform in a planned manner. Members of your community, suppliers, buyers or others will want to know about the change in leadership your business will undergo.

By the end of Step 4 in the succession planning process, you should have created a draft plan with several different options for achieving your goals. The documents will include:

- a retirement plan
- a management plan complete with a program for grooming the successor(s)
- an ownership plan including an up-to-date will
- contingency plans in case of death, disability or family break-up
- a timeline attached to each important step in the process
- a plan for communicating important decisions to members of the family and the business.