Topic 14: Foundation

Challenges in Transition Planning

There are certain issues within the transition planning process that some families may find difficult. These issues may ultimately slow or stop the transition planning process altogether. A list of 20 common issues can be found in the following narrative. Often referred to as soft issues, they involve personal feelings and emotions. They can be more difficult to deal with than tangible issues such as taxation.

Why is this relevant?

By recognizing that these issues may be a problem currently or during the transition planning and implementation process, families can prepare to address them. There is less likelihood that families will encounter problems that stop or slow their progress towards a completed transition plan if they are prepared to deal with them as they arise or before they arise.

How will this help transition planning?

- Working through a process that examines typical challenges in transition planning gets family members thinking about different parts of the planning process.
- It helps to get everyone on the same page.
- You will learn what and how family members think about different aspects of the planning process.
- You will better understand what things require specific attention.
- This will help avoid conflict when family members have different opinions.

Instructions

1. Family members who are actively involved in the farm business should complete the exercise.
2. Optionally, family members who are thinking about becoming involved, or who are not actively involved at this time, can complete the exercise.
3. Read the following narrative listing 20 common challenges in transition.

Lack of Awareness	Accountability	Fair and Equal	Communication
Getting Started	Selfishness vs. Selflessness	Active and Non-active Children	Management
Planning Drift	Estate Plan Gaps	Entitlement	Tax Planning
Avoidance/denial	Goals and Values	Successor Skill Sets	Risk
Not Wanting or Willing to Commit	Fears	Compensation	Process Facilitation

4. In the table following the narrative, each line lists one challenge. On that line, identify if this item is or may be a challenge for your family.
5. If an item is identified as a challenge, in the corresponding column, decide if that issue:
   a. has been dealt with
   b. has been resolved
   c. needs follow-up to deal with and resolve it, and if so, who will address the issue and when

Challenges in Transition Planning

1. Lack of Awareness —

a. It is common in transition planning to find a lack of awareness of the process involved in developing and implementing a transition plan. The lack of awareness includes the component parts of the process and challenges typically encountered within the process. It also includes the amount of time required to start, work through and finish applying a transition plan.

b. Another aspect of lack of awareness relates to the life cycle of the family and farm. Where are the family and farm in their life cycles and how does, or will, transition planning fit within them? Transition planning should start at least three to five years before the desired implementation date. Transition planning for an increasing number of today's farms is often best served if it starts much sooner — 20 years or more for a good percentage of farms — because life cycles of farms and families are much different today than in the past.

   i. Obtaining as much information as possible about transition planning will help to overcome any lack of awareness. There is an abundance of information on the Internet. Government offices are a good resource. There are also workshops and seminars that focus on transition planning. Talking to farmers who have worked through, or are working through, a transition plan can be helpful.

2. **Getting Started —**

   a. Transition planning is something that is often discussed and too often deferred. Farmers always seem to have more urgent matters to attend to — especially when it comes to production. Unfortunately, taking transition planning seriously often begins only when an event or crisis forces families to react. It is always less stressful to be proactive. Not knowing where to start or what to do first is one of the most common obstacles farm families face to getting started.

      i. The simplest way to get started is to call a meeting. Of course this requires that one person takes action, but this action by one person can kick-start the process and get everyone involved.

      ii. There are other tactics that can be helpful in getting started, such as accountability and process facilitation. Creating accountability within the farm family by having someone lead the process or simply arrange a first meeting can help in getting started. You can get someone from outside the family to help with process facilitation and assign them with the responsibility to arrange the first meeting. Families find this helpful, if only to get the process started. They can continue on their own afterwards, if they so choose.

3. **Planning Drift (Procrastination) —**

   a. Just like getting started, continuing to advance the transition plan is easy to leave on the to-do list. Often families encounter conflict, feel overwhelmed by the enormity of the project or are uncertain how to proceed. As a result, they struggle to maintain momentum. If left too long, families forget what they have discussed and decided. Circumstances may also have changed. The result is that the value of getting started is lost as they must essentially start again.

      i. Accountability and process facilitation, discussed in more detail below, can be helpful in avoiding procrastination. Also helpful is deciding on an end date for the planning. When does the family need to have its transition plan completed and ready for implementation? Once determined, all meetings and related decisions to meet this deadline can be prescheduled. Meetings with advisors can also be prescheduled so that there is pressure to have certain transition items discussed or decided in advance of the meetings. It also helps to ensure that the advisors are not holding up the process either.

4. **Avoidance/Denial —**

   a. Farm transition can be an emotional and difficult process. Certain personalities would rather avoid the topic altogether while others choose to deny their inevitable retirement and mortality. It is easier to do nothing — for a while — but there are too many stories of transition planning gone wrong to allow avoidance or denial to halt your farm's progress. This is most typically a retiring generation challenge. However, the do nothing philosophy can also plague successors who do not want to accept the future where Mom and Dad are no longer able to work on the farm.

i. Transition planning is not about writing a death certificate or issuing a layoff notice. Nor is it about transferring ownership and management responsibilities over to the incoming generation in one day.

ii. Helpful tactics include talking about the issues and addressing individual and family fears. This should bring clarity to the issues and provide some relief. If one or more of the generations continue to use avoidance or denial in confronting transition on the farm, seek help through facilitation.

5. Not wanting or willing to commit —

a. This challenge is different from avoidance/denial in that families accept the need for transition planning but are unwilling to commit to the process. The reasons for this unwillingness are often similar to avoidance/denial:

i. From the retiring generation's perspective, this is lack of desire to talk about or commit to winding down or retirement.

ii. From the succeeding generation's perspective, this is anxiety about the responsibility of becoming the main decision maker.

b. One way to approach this challenge is to develop a series of smaller commitments. For example, commit to one meeting together or with an advisor. Solve one issue at a time. However, be on the lookout for procrastination. Once the process has been started, formulate a strategy that will maintain momentum and keep the planning going until it has been completed.

6. Accountability —

a. The lack of accountability can be real or perceived.

b. Many plans are derailed because no one feels responsible or accountable to keep the process moving forward. It does **not** have to be solely one person's responsibility but there is a far better chance of a successful outcome with fewer people in control.

c. Roles and responsibilities may change as the plan evolves and the business changes. There can be too many assumptions being made about who is in charge. This can result in things falling through the cracks with people assuming that someone else was responsible. At the least, this situation can derail the process and cause frustration. At the worst, it can result in conflict and financial costs where, for example, tax issues are not optimally managed.

d. There are not many people who want the hassle of nagging their family to attend meetings or to complete transition planning duties but this is exactly what is needed.

i. Accountability does not have to be one person's job, unless of course he or she is willing to take on that role. An option is to have the family decide who will be responsible for elements of the plan, contacting advisors, scheduling meetings etc.

ii. Whether the decision is to have one person charged with accountability or to assign specific individuals with specific responsibilities, it is critically important to clarify roles, authorities and accountabilities during the planning process and eventual transition.

iii. Accountability to a third party, such as a consultant or advisor, is an option where families do not, or cannot, take on the responsibility.

7. Selfishness vs. Selflessness —

a. The retiring generation may swing between adequate consideration of their needs and wanting to get market value out of their life's work. In most situations, the latter often far exceeds the former. The succeeding generation may struggle with wanting their parents to get what they deserve out of life while at the same time wanting a break on farm asset prices or payment terms. There is a balance that can be difficult to achieve, between looking out for oneself and looking out for someone else.

b. The parent/child relationship is usually deeply grounded with parents wanting to ensure that their children are well taken care of and are given every opportunity to succeed. It is common to find situations where parents will make personal sacrifices to minimize the risks their children might have to endure.

   i. There is a fine balance between:

      - being realistic about future financial needs and wants
      - seeing the next generation get off to a good start
      - Mom and Dad's fulfillment of retirement dreams

   ii. Parents, being the retiring generation, should make sure **their** needs are considered before the needs of others. This may appear to be somewhat selfish. However, the retiring generation does not have the luxury of time to fix a situation where they end up in a financial shortfall in their retirement because they were too selfless.

8. Estate plan gaps —

a. An estate plan differs from a transition plan. A transition plan, where the intention is to transfer ownership and management to the next generation, must include an estate plan. In situations where there is not going to be any inter-generational transfer, a transition plan is not required. However, an estate plan **is still** necessary. An estate plan examines tax strategies, contingencies (power of attorney for example), wills, insurance and savings (a retirement revenue stream that does not come from the farm). Often, elements of an estate plan are missing.

   i. As part of the transition plan, make sure the estate plan is entirely completed as this can affect the outcome of the plan. A lawyer and an accountant should be consulted on a regular basis to make sure wills and tax strategies are current. Investment and insurance advisors should be consulted as well, but this depends on the preferences and priorities of the farm family.

9. Goals and values —

a. It is natural and common for there to be differences between the goals and values of the retiring and succeeding generation simply due to their respective stages in life. From a business perspective, the retiring generation will most likely be concerned with conserving equity, minimizing risk and securing funds for retirement. The succeeding generation will most likely be concerned with growth that can include borrowing money, risk, and improving the farm cash flow.

    i. These differences need to be understood and then dealt with in the transition plan. Start by actually recording and sharing goals and values amongst family members. Until each person's desires are made known, it can be difficult or impossible to know what differences might exist and how to deal with them. The differences do not necessarily result in conflict but this can be an unfortunate outcome.

10. Fears —

a. Many fears come to light during the transition planning process. Individual fears around control (where the retiring generation will at some point have to give up managerial control), wealth (where equity, built up over a long and successful farming career, can be eroded) and conflict must be dealt with in order to effectively plan transition.

    i. The first step to addressing fears is to acknowledge that they exist. The second step is to communicate to others that they exist. The third step is to develop tactics that will mitigate the fears. Real caution should be used before proceeding with implementing a transition plan without having properly addressed people's fears.

11. Fair versus equal —

a. Equal is not always fair and fair is not always equal. This principle applies to estate elements and related distribution, ownership and management transfer and the division of labour. Parents often become stuck and unable to proceed with transition plan development and implementation when trying to treat children equally. Children can get caught in this trap as well but must recognize that part of growing up is earning and proving their value to the family business. Each family must work to find a balance between fair and equal that can be accepted by all stakeholders. It is possible to arrive at equitable arrangements but this principle is completely different than trying to achieve an equal arrangement.

    i. It is generally accepted that, in transition planning, fair and equal only has to make sense to the retiring generation. They've taken the risks and built the business to where it is today. They should get to decide what they want to do with it.

12. Active and non-active children —

a. The challenge of active and non-active children, referred to here, is not about how they will be treated in the final transition plan but how they will be involved in the actual planning process. Some families will want all children at all meetings and others will keep non-farming children advised when they decide it's necessary.

   i. In general, an invitation to the non-farming children opens communication. It gives them the opportunity to voice concerns and opinions. It can help to dismiss any myths they have, or might develop, about Mom and Dad's relationship with the farming children. However, during the planning process, many personal and financial issues come to light and individual privacy wishes need to be respected. This can even mean that a particular family member does not actively participate in the planning.

b. Many families experience situations where one or more family members actually refuse to participate in the planning process. There can be several reasons for this, ranging from immaturity to geographic distances to a general lack of interest.

   i. Participation cannot be forced. In situations where a family member is not participating, it is strongly recommended to continue to include them in the process. You can do so by inviting them to meetings, giving them related information and keeping them informed of decisions. By doing this, there can be no change of heart in the future where the non-participating family member declares that he or she wasn't given a chance to participate.

13. Entitlement —

a. Feelings of entitlement are common in transition planning. Children who have been working on the farm will often feel entitled to a greater share of the farm and their parents' estate than siblings who have not. Siblings who have not been working on the farm feel entitled to their share through birthrights. The retiring generation feels entitled to spend the equity that they have earned as they please. These feelings must be acknowledged, balanced and incorporated into the transition plan.

   i. A first step in tackling entitlement is to develop and share goals and values. Goals and values can set the foundation for transition plan development and implementation. They become the common interest from which to proceed with planning. Building on common goals and values and focusing on how the family can make compromises and work together, helps.

14. Successor training and skill set development —

a. Transferring the management from one generation to the next is one of the most important aspects of transition planning. Given the challenge of farms today, management ability and practises are critically important to sustained success of the business. Therefore, making sure that the succeeding generation has the necessary skill sets required to take on the managerial responsibilities should be a top priority. The focus should be on all aspects of management and not just operations.

i. Generally, successors need management, leadership and other training before they are ready to take over the business. There are several very excellent programs that provide the succeeding generation with opportunities to improve their management abilities.

15. Compensation —

a. In a farm business, the owners, managers and labourers are often the same people. There is a long list of compensation for these roles. Dividends, wages, bonuses, personal loans, gifts (housing, school, vehicles,) training, perks (vehicles, vacations, trips, business/ personal expenses), ownership and equity gains in land, inheritance are examples. Finding a balance between these forms of compensation can add challenges to the transition plan.

   i. A formal compensation plan outlines exactly how money will flow out to family members and under what terms, including performance expectations.

16. Communication —

a. Families must communicate, both internally and externally, for the transition planning process to flow smoothly. If advisors are not kept abreast of discussions and potential decisions, they cannot provide valuable input. If there is conflict or concern around discussions or decisions but it is not communicated, there is no opportunity for resolution. Most importantly, individuals cannot provide input if they are not given the opportunity to do so. Suggestions to promote communication include the following.

   i. Conduct meetings according to an agenda, take notes and circulate them to everyone in attendance and others as necessary.

   ii. Ensure all stakeholders are informed about transition planning progress. Make sure they have an opportunity for input where applicable.

17. Management —

a. Management is one of the most important aspects of transition planning. Management related concerns should include:

   i. a discussion and agreement about a business-first or family-first approach to managing the farm

   ii. planning that connects financial performance and human resource management

   iii. agreement on investment objectives and priorities

   iv. discussion and agreement on major concerns such as strategic direction, planning priorities, investment priorities and ownership guidelines

18. Tax planning —

a. Tax implications related to transition planning are complex and should always involve the advice of a professional. Tax implications can be very costly if ignored. For example, deemed dispositions on death, forced sale of assets to pay tax. However, it is important to not let tax implications drive transition as this may lead to a plan that is not easily understood, difficult to implement and impossible to work within.

    i. Work closely with your accountant regarding the tax implications of your transition plan.

19. Risk —

a. Risk is a reality in agriculture and can take many forms. Management is required to mitigate the risks. It is preferred to proactively identify risks that the farm may encounter, measure the probability that a risk will appear and then measure the impact that the risk, if it did appear, would have on the business.

    i. Mitigation plans can be developed for potentially significant risks (high probability and high impact).

b. Individual family members will have different personal tolerances for risk. Usually, as people age, their tolerance for risk decreases. On the other hand, younger people have a greater tolerance for risk. So, it is common for there to be differences of opinion between the retiring and succeeding generation when it comes to decisions that include elements of risk. A better understanding of risk and personal risk tolerances may help to minimize conflict.

    i. Each family member should work through an exercise that helps them to gauge their personal risk tolerance.

    ii. Family members should then discuss their risk tolerances, recognizing that the differences do exist. They should include the differences in discussions about transition plan development and related management decisions.

c. There are risks that are generally more closely associated with transition planning. The five Ds of death; divorce, disability, dispute and disaster should be considered and, if and where possible, contingency plans formed.

20. Process facilitation —

a. Some challenges may be better addressed or managed through a facilitated process. A facilitator can address the challenges of getting started, planning drift, accountability and communication, while helping the family discuss issues that may be difficult to tackle on their own. The right facilitator can help your family negotiate emotions, conflict, financial and legal matters.

    i. What are the traits your family needs in a facilitator? Do you need a mediator? A financial expert? A motivator? Look for a professional who will meet your family's specific needs. For more information, see the advisors document in the appendix on pages 305-308.

EXAMPLES

Challenge	Applicable/Not Applicable	Reviewed or Dealt With	Outstanding Issue Resolved	Follow-up Required	By Who? When?
1. Lack of Awareness	*Not Applicable*				
2. Getting started	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John – ASAP*
3. Planning drift	*Applicable*	*Yes*	*Yes*	*Maybe*	*Ongoing monitoring*
4. Avoidance/Denial	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – ASAP*
5. Commitment	*Not Applicable*				
6. Accountability	*Not Applicable*				
7. Selfishness vs. Selflessness	*Not Applicable*				
8. Estate plan gaps	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – within one year*
9. Goals and values	*Applicable*	*Yes*	*Yes*	*Maybe*	*Ongoing monitoring*
10. Fears	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca- ASAP*
11. Fair versus equal	*Not Applicable*				
12. Active and non-active children	*Applicable*	*Yes*	*N/A*	*No*	
13. Entitlement	*Not Applicable*				
14. Successor Training & Skill Set	*Applicable*	*Yes*	*No*	*Yes*	*Rob, Faye, John – ongoing*
15. Compensation	*Applicable*	*Yes*	*Yes*	*No*	
16. Communication	*Applicable*	*Yes*	*No*	*Yes*	*All parties – ongoing/ASAP*
17 Management	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca*
18. Tax planning	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – ASAP*
19. Risk	*Not Applicable*				
20. Process facilitation	*Not Applicable*				

How does this apply?

If you have marked an item for follow-up, you may want to create a more specific action plan for the item. In addition to who and when, the action plan should include:

- listing specific steps to take for follow-up and attaching a time line to each of these steps
- listing any specific materials or resources that will be needed to complete the follow-up
- deciding how often will you monitor the follow-up item
- deciding who will be responsible for monitoring
- deciding how you will know progress is being made

Addressing the challenges in transition planning that apply to your farm and developing specific follow-up plans to address them will help your family reach the end goal of a successfully completed farm transition.

PLANNING POINTERS:

- The challenges identified are common to farm transition but may not appear all at the same time. Refer to this topic during planning and implementation to see how the challenges are being managed.
- Have someone be responsible for keeping the checklist current and for making sure things are getting done.
- Include family members actively involved in the farm business.
- Optionally include:
  - family members who are thinking about becoming actively involved
  - family members who are not actively involved

WHAT TO WATCH FOR:

- Not all challenges will be encountered by all farm families.
- Consider using an external facilitator if you are concerned about conflict that may come from one or more of the challenges.
- Consider using an external facilitator if you find it difficult to lead a discussion on some or all of the challenges.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Challenges in Transition Planning exercise on page 247.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Challenges in Transition Planning

Challenge	Applicable/Not Applicable	Reviewed or Dealt With	Outstanding Issue Resolved	Follow-up Required	By Who? When?
1. Lack of Awareness					
2. Getting started					
3. Planning drift					
4. Avoidance/Denial					
5. Commitment					
6. Accountability					
7. Selfishness vs. Selflessness					
8. Estate plan gaps					
9. Goals and values					
10. Fears					
11. Fair versus equal					
12. Active and non-active children					
13. Entitlement					
14. Successor Training & Skill Set					
15. Compensation					
16. Communication					
17 Management					
18. Tax planning					
19. Risk					
20. Process facilitation					