Chapter 7: Structure

Topic 17: Transition Options

Part A: Successor Assessment

Many factors determine who will be chosen as a farm's successor. While a potential successor's professional competence is important, most farm succession planning decisions are based on family connections (i.e. inheritance), a potential successor's interest in farming, and family needs.

Typically, a farm's choice of successor is one or more of the retiring generation's children, a close relative or a trusted personal connection. Just because someone is chosen as a successor does not necessarily mean that they are ready to take over management of the farm, nor does it mean that they have the necessary management, financial and operational skills. The successor of a farm business will be the future leader and manager of the business and will make or break its success. As such, assessing where they need to build their leadership and management skills is vital to the long term success of the business.

Why is this relevant?

Determining a successor's skills, strengths and areas for growth is a necessary starting point in order to build an appropriate plan for leadership training and development.

In addition, the discussion provides a great opportunity for both generations to discuss the leadership and management traits that have brought the farm to its current state, and what skills will be necessary looking forward to successfully achieve stated goals.

Because the retiring generation knows the farm business best, they will also know best what management and leadership traits are necessary for their business.

How will this help transition planning?

Analyzing a potential successor's management and leadership skills, strengths and weaknesses can:

- reveal deficiencies/areas of weakness that require attention and/or additional training. Proactively dealing with concerns can help to avoid undesirable outcomes;
- promote discussion between the generations about leadership and management;
- help a successor see their strengths and weaknesses, so they know what to build on and areas of caution;
- help the retiring generation see that the successor's strengths and weaknesses are different than their own, and that they will influence the business differently;
- help the retiring generation celebrate a successor's strengths, and better understand how to support the successor's weaknesses; and
- help the retiring generation set expectations regarding the type of leader and manager they want to carry their business into the future.

Farm Journal Legacy Project. Legacy by Design, LLC. Chico, California

Successor Assessment Exercise

***All members of the retiring generation should work together to complete the following Successor Assessment Exercise.*

Instructions

1. Refer to the Successor Assessment Exercise on page 339 of the Appendix.
2. Read each statement listed under the leadership and management categories.
3. For each statement, rate your successor(s) as follows:

   (5) Exceeds Expectations

   (4) Meets Expectations

   (3) Inconsistently Meets Expectations

   (2) Below Expectations

   (1) Needs Improvement
4. Add the scores for leadership and management together and assess the results using the following scale.

   < 40: Successor's leadership and management skills are less than desired.

   Attention to improving these skills should be a priority **before** proceeding with implementing a transition plan.

> 40 < 70: Successor’s leadership and management skills are adequate.

Attention to improving these skills is still required. Proceed with implementing a transition plan **cautiously**.

> 70: Successor’s leadership and management skills are strong.

The farm business should not expect to encounter significant difficulties arising from the successor’s leadership and management skills.

Proceed with implementing your transition plan.

5. Discuss the survey results with the successor(s). Make sure that you discuss both strengths and weaknesses.
6. Decide where improvements could and should be made.
7. Store the documents for future reference.

How does this apply?

No one is naturally blessed with all leadership and management skills. Becoming a competent farm leader is a learning process that requires an understanding of one’s strengths and weaknesses, and a commitment to continuous improvement. Honest and constructive feedback from the retiring generation, who know the farm business’s needs and (typically) have a good understanding of their successor’s strengths and weaknesses, is an excellent first step towards developing a strong farm business leader in the succeeding generation.

KEEP IN MIND:

- The survey is designed to be a general guideline rather than an absolute scoring of a successor’s skillsets.
- In the event that a farm business is to be taken over by multiple successors, this exercise is best completely separately for each individual successor. However, it can be completed jointly for all successors.

WHAT TO WATCH FOR:

- Be positive rather than critical when reviewing the results with successor(s). Virtually no one successor will have all the traits outlined in the survey. The intention of this exercise is to constructively determine areas for improvement, not to attack or hurt a successor's pride.
- This exercise has significant potential for differences of opinion, disagreement and conflict. Consider using an external facilitator if you are concerned about the discussion resulting from this exercise.

EXERCISE:

Complete the Successor Assessment Exercise on page 339 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Ownership Options

So far, your group's transition planning has focused on examining your group's goals, the farm business's health and long-term plans, and the successor's skills. All play extremely important roles in determining how the farm business will transition. Now it is time to determine how the ownership of the farm business will transfer to successors, either during the retiring generation's lifetime(s) and/or through the retiring generation's estate(s).

This Ownership Options exercise, adapted from Saskatchewan Ministry of Agriculture's *Estate Planning Checklist for Farm Families* publication, is designed to draw out questions and preliminary decisions on how, when and what farm assets (if any) will be transferred to on-farm and non-farming successors. These preliminary decisions will then be tested in the next topic to determine their ramifications on the farm business's financial performance.

(Note: it may be necessary to go back and forth between this exercise and the next, adjusting the ownership transition plan and then testing it to determine which transition plan achieves optimal financial or retirement goals).

There are five main areas to consider when making decisions about ownership transfer options:

1. Ownership: who will ultimately own farm business assets and when?
2. Control: who will ultimately control farm business assets and when?
3. Security: is the retiring generation willing to put their assets at risk? What level of income does the retiring generation need for retirement?
4. Living Arrangements: how will living arrangements be handled for both the retiring and succeeding generations?
5. Equal Versus Equitable Treatment of (on-farm and non-farm) Successors: an equitable arrangement does not necessarily mean that all successors receive equal/identical share in the farm business and/or inheritance. In many situations, an on-farm successor receives a greater value of assets but is required to take on the risk and stress of running the farm business. This arrangement often lets the retiring generation remain associated with an active farm operation longer than would be the case if they did not have a succeeding generation ready to take over the farm. Each transition group's succession arrangement will be unique.

Why is this relevant?

This Ownership Options Exercise is intended to create a preliminary ownership transfer plan, which should then be taken to advisors for review and suggestions.

Note: all decisions made through this exercise should be viewed as preliminary pending discussions with an accountant, lawyer, investment/financial planner, and/or insurance advisor.

How will this help transition planning?

- There are no easy answers to many of these questions. However, thinking about options and writing down initial thoughts can help to develop a preliminary plan.
- Many of the questions detailed in this exercise will be asked by an accountant, lawyer, investment/financial planner, and/or insurance advisor at some point. Thinking through preliminary answers in advance will make the meetings with advisors more productive.
- Transition of ownership is a key but often challenging element of farm transition, particularly when the retiring generation has multiple on-farm and non-farm successors. Thinking through options can help the retiring generation narrow down their choices and make initial discussions with successors more direct and productive.
- Proactively thinking through these difficult questions can help transition move forward, and can reduce potential for conflict.

Ownership Options Exercise

*** All members of the retiring generation should work together to complete the following Ownership Options Exercise. If the retiring generation so chooses, the succeeding generation may provide input to this exercise.*

Instructions

1. Read through the Ownership Transfer questions on page 340 of the Appendix.
    a. Write answers to the questions that are applicable to your operation. These answers will, together, form a preliminary plan for the ownership transfer of your assets.
2. At minimum, the plan should include:
    a. who the assets will be transferred to;
    b. when they will be transferred;
    c. what the price will be;
    d. when the funds will flow to you (as a lump sum, over time or a combination);
    e. whether you will retain assets for your estate or sell all during your lifetime; and
    f. outstanding questions for your advisors.
3. Keep this preliminary plan accessible for future discussions with your accountant, lawyer, investment/financial planner, and/or insurance advisor.
4. Store the documents for future reference.

How Does This Apply?

Once the retiring generation creates a preliminary ownership transfer plan, it can provide the basis for discussion with successors. Initially, the retiring generation may choose to discuss their plans solely with their on-farm successors and not their non-farm successors in order to consider the on-farm successor(s)' concerns, comments or suggestions. However, eventually all successors should be involved in discussion regarding ownership transfer.

Note: the preliminary plans drafted in this exercise will be used in Topic 17 Part C (Business Structure), Topic 17 Part D (Financial Performance – Transition Scenario), and Topic 18 (Preliminary Advisor Review).

KEEP IN MIND:

- Remember that the details drafted in this exercise form a **preliminary** plan only. Nothing is set in stone at this point.
- The questions in this exercise are difficult for many retiring farmers. If they prove too difficult to answer, talk to a financial advisor or an Alberta Agriculture and Forestry farm business specialist.

WHAT TO WATCH FOR:

- An effective technique for this exercise is to make a first attempt at answering the questions and then set them aside for several days before working through them again. Pondering answers over several days may allow clearer, more thoughtful responses.

EXERCISE: Complete the Ownership Options Exercise on page 340 of the Appendix

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. . You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Business Structure

Once the retiring generation comes up with a preliminary plan regarding to whom and when they'd like to transfer ownership of the farm business, it is time to explore actual methods of ownership transfer.

Note: Business structure and ownership transfer are complicated topics. While the following exercise provides an overview of the topic, it is not meant to replace advice from professionals. The retiring generation (and, optionally, the succeeding generation) should talk to an accountant and lawyer about their unique situation and options.

1. Transfer Methods

Determining the best method to transfer farm ownership depends upon many factors, including:

- number of successors (both active and non-active in the farm business);
- current financial health of the farm business;
- financial health of the retiring generation (which may include taking into account sources of wealth and income other than what is generated by the farm);
- current ownership structure of the farm business;
- management ability of on-farm successors;
- borrowing capacity of the farm and its on-farm successors;
- personal and group goals and objectives; and
- retiring and succeeding generations' preferences for immediate or gradual ownership transfer.

The basic methods of transfer are:

- sale;
- gift; or
- bequest.

Most farm transfers occur gradually over a period of time based on a combination of sale, gifts and bequest. The appropriate combination of methods is unique to each farm.

Transfer by Sale

Most farms are transferred at least in part by a sale from the retiring generation to the successors. A sale is a direct and 'clean' way of making an ownership transfer. Capital from the sale can be used to fund the retiring generation's retirement goals and/or passed on as inheritance to any non-farm successors.

Be aware that the sale price and repayment terms (if the retiring generation provides financing) can cause friction between the retiring and succeeding generation, and/or between on-farm and non-farm successors.

Planning the Future. Manitoba Agriculture, Winnipeg, Manitoba

Transfer by Gift

Few people can afford to give a farm away. However, most transfers that occur between family members include some amount of gifting, either in the form of specific assets or in a reduced transfer price. Gifting helps successors get over the hurdle of paying for assets that have inflated market values, allowing the successors to gain initial equity in the farm. With this equity, the successor then has borrowing power to raise additional capital for the farm operation.

Be aware that gifting can reduce the retiring generation's financial comfort and flexibility, and may cause friction between on-farm and non-farm successors.

Transfer by Bequest

A bequest is a gift that successors (beneficiaries) receive upon a benefactor's death, as directed by the benefactor's will. This is not the best option for farm ownership transfer but is an essential tool should the retiring generation die before a transfer plan is complete.

Ideally, a bequest should include only the final elements of farm transfer, including such things as forgiving debts still owed by the younger generation, or distributing an inheritance to non-farming successors.

2. Structuring the Transfer

Several structures can be used to transfer ownership of farming assets to successors. Because each farm is unique, there is no one-size-fits-all transfer method. The best arrangement must consider:

- the needs of the retiring generation;
- the needs of the succeeding generation (on-farm and non-farm);
- the value of the farming operation;
- potential financing arrangements; and
- debt servicing capacity of the farm.

Retiring Generation’s Needs

When determining how best to transfer farm property to the succeeding generation, a primary consideration is how much money the retiring generation will require for living expenses for the rest of their lives. Many farmers spend their farming lives building equity in the farm business, which often results in their being asset rich but cash poor. If the assets are gifted or mostly gifted to the succeeding generation, the retiring generation may have very little money to live on unless they have another source of income.

Keep in mind that life expectancies are increasing, so it is important to plan for a long retirement. It is also important to factor in an allowance for inflation. A two per cent annual increase in inflation equals approximately 22 per cent over ten years. Four per cent inflation equals an increase of approximately 50 per cent in the cost of living over ten years.

Succeeding Generation’s Needs

Farm transfers typically occurs at a time in the succeeding generation’s life that living costs are increasing due to marriage and a growing family. These costs must not be underestimated. The succeeding generation will require the farm business to cover operating expenses, income taxes, loan repayments and investment, as well as sufficient income for family living expenses.

Keep in mind that the succeeding generation may face certain additional/higher costs than the retiring generation. In many cases, the retiring generation will live on the farm before and after ownership transfer while the succeeding generation will remain living off-farm. When determining living expenses for the succeeding generation, do not forget that costs like utilities, automobile expenses and mortgage payments may be higher for those who live off-farm compared to on-farm.

Selling Price

In a succession situation, a farm business’s selling price is largely determined by the retiring generation’s willingness and ability to financially assist the succeeding generation. Cash flow and debt-servicing capacity of the farm business also impact the decision.

Typically, some assets are transferred at or near fair market value; others will be sold to the succeeding generation for much less or given as gifts. The total sale price is usually determined by the retirement and estate objectives of the retiring generation and the financial capacity of the succeeding generation, in consultation with an accountant and financial planner.

Borrowing Arrangements

Transfer of farm ownership can be financed by a commercial loan from a bank or mortgage company, or – if the retiring generation is willing and able – via private financing by the retiring generation.

While it is very generous of the retiring generation to offer to finance a farm transfer loan, keep in mind that doing so can jeopardize retirement plans and, in a worst-case scenario, the relationship between retiring and succeeding generations. If the succeeding generation decides to grow the farm business too fast, makes a major mistake, or otherwise causes cash flow to fall short of debt payments, it is common for the retiring generation financing a farm loan to be the last to receive payment. Further, if the retiring generation provides financing or defers repayment, they by association assume some of the farm business risk and will not be completely free from the farm until all of the succeeding generation's outstanding financial commitments are met.

Debt Servicing Capacity

The debt-servicing capacity of a business is the amount of money (from all sources of income) left after paying all operating expenses (including an allowance for family living expenses and income taxes), before loan payments are made. This amount is available for loan (interest and principal) payments.

3. Business Structures

Sole Proprietor

A sole proprietorship occurs when the business and all its assets are personally owned by one person (the sole proprietor). Income produced by the business is taxed to the sole proprietor personally. A sole proprietorship is the easiest and least expensive form of business structure to set-up and organize.

Within a sole proprietorship, the owner is:

- in absolute control of all management decisions;
- taxed at the personal, marginal rate in effect at the time;
- able to do anything an individual citizen can do; and
- personally liable for all debts of the business, which means personal assets may be seized to pay off the debts of the business.

A sole proprietorship ends upon the death of the owner. The property may be transferred to another person upon death, but the person receiving the property becomes a new business entity.

Partnership

A partnership is a relationship between two or more people who agree to together operate a joint, for-profit business. It also applies to any arrangement where, in the absence of a written agreement, the conduct of the people indicates they are carrying on a business together.

Generally, a partnership exists if:

- The individuals carry on a business in common. (Joint tenancy, tenancy in common, joint property, common property or part ownership of something such as land does not necessarily create a partnership, even if profits from the land are shared).
- The parties involved plan to make a profit from the venture.
- All parties are prepared to share any losses that the business might incur.
- All parties participate (not necessarily equally) in management.

Types of Partnerships

There are two types of partnerships: limited and general. In a general partnership, each of the partners is liable for any debts incurred in the name of the partnership. In a limited partnership, partners are liable for the debts of the partnership only to the extent of their investment.

Typically, most farm partnerships are classified as general partnerships.

Liability is a key consideration when considering partnership. In a general farm partnership, each partner **is liable jointly and severally** with the other partner(s) for debts and obligations incurred by the farm while they are partners. If for any reason the liabilities of a partnership exceed its assets, a creditor or injured party may sue the partnership, each partner, or any individual partner for the full satisfaction of a claim. This liability is extremely important to keep in mind when entering a partnership agreement or a business arrangement which could be declared a partnership by a court action.

In addition to liability, partnerships can be grouped according to whether assets are owned by the partnership or the agreement partners, as follows:

Full Partnership:

- The partnership owns all assets.
- Individual partners have an interest in the partnership only.
- This form of partnership most clearly parallels the concept of an independent entity.

Modified Partnership:

- Some assets are owned by the partnership and other assets are owned by individual partners.
- Individual partners retain ownership of certain assets and also carry some partnership interest.

Operating Partnership:

- Individual partners retain title to all assets used by the partnership.
- This type of partnership simply shares labour, income and expenses.
- A partnership interest would only be created through retained earnings.

Partnership Profits

For income tax purposes, a partnership must calculate its net income as if it were a separate entity. However, no income tax is levied on partnership income as the partnership itself is not required to file a tax return. Instead, the net income (or loss) is allocated to each partner according to the sharing agreement. Partners must then include their share of partnership income or loss in their own individual tax returns. In effect, while net income is determined at the partnership level, it is taxed at the individual partner level. Capital cost allowance on partnership assets must be accounted for at the partnership level. Profits may be shared in any manner agreed upon by the partners. The profit sharing ratio need not be predetermined, nor does it have to be consistent from year to year. Normally, the sharing ratio should be consistent with the amount of capital and labour contributed by each member. Farmers should be aware that the Canada Revenue Agency (CRA) has the discretionary power to reallocate partnership profits.

Special income tax provisions permit a rollover (deferral of tax) on the transfer of property to a partnership. These rollover provisions apply to land, buildings, machinery, quota and inventory.

When dissolving a partnership, the general rule is that assets are deemed to be disposed of at fair market value when a partnership is dissolved. This may result in capital gain (loss). However, special rules exist to defer the tax on the dissolution of a partnership in certain situations. These include:

- transfer of partnership property to individual partners;
- transfer of partnership property to a limited company;
- transfer of property from one partnership to another; and
- partnership dissolved with one partner continuing as a sole proprietor.

Corporation

A corporation or company is a separate legal entity that exists independent of the shareholders or members who compose it. As a legal entity, a company can do many of the things that a person can do. For example, it may purchase, hold and transfer property, obtain financing and enter into contracts in its own name.

Owners of a company are known as shareholders. Their financial interest in the company is represented by ownership of shares. Once a farmer transfers property to a company, the company takes title to such property. In turn, the farmer has title to the allotted shares, which are held as personal property. The farmer may continue to control the farming business carried on by the company by virtue of shares held in the company but the company is the legal owner of the farm.

The share structure that a company adopts can be critical in terms of transition and estate planning and taxation. Several classes of shares can be created, each offering varying benefits to its holder. Factors such as voting privileges, realization of dividends and equity participation distinguishes one class of shares from another. A company's equity financing is accomplished through the issuance of shares and notes. A note may represent a loan by a shareholder to the company, thus the shareholder becomes a creditor of the company as well.

Tax considerations

A corporation differs from both a sole proprietorship and a partnership in that it pays its own taxes on earned income, whereas tax flows through to the hands of the partner or proprietor in a partnership or sole proprietorship. That said, shareholders in a company also pay tax on any dividends or salary received from the company.

Salaries are a deductible expense to the corporation, thereby reducing its taxable income, while dividends are not.

Advantages of a corporation

- Farm business continuity
  - A company has perpetual existence. Provided that managerial responsibilities are shared by two or more shareholders, many of the problems that develop upon the death of a sole proprietor are avoided.
- Transferability of ownership
  - The corporate form of organization converts ownership of specific assets into more readily transferable preferred or common shares, which represent the ownership of the business as a whole. For estate planning purposes, it is much easier to implement an orderly transfer of shares from principal shareholders to successors (both during the principal shareholders' lives and after their deaths).
- Tax savings
  - A Canadian-controlled private corporation is taxed at a lower rate than the personal tax rate. Tax savings, which are really a tax deferral, are only possible if profits are reinvested in the corporation. The withdrawal of profit as dividends, salaries, interest, rent, etc., largely eliminates the tax deferral.
- Limited liability
  - The liability of a shareholder is limited to the value of shares owned. Investments outside the company are not required to be used to settle company liabilities. This advantage is lost if lenders require personal guarantees.

- **How will this help transition planning?**
- High cost of incorporation
    - There are significant start-up costs and annual operating costs related to incorporation. Opening and annual financial statements must be prepared, along with a more complex income tax return. The services of an accountant are normally required, which could result in a high annual cost.
- High Cost of Dissolution
    - Because there is no rollover provision when transferring assets out of a corporation, the tax costs may be very high if and when dissolution occurs.
- Extra Administration
    - More administration of a corporate farm business is required and it involves more work with lawyers and accountants.

Characteristics of a farm business that incorporates:

- consistent, high level of farm income and net taxable income;
- income left in the company as opposed to flowing through the company to the shareholders;
- large untaxed inventories;
- paying a spousal salary (over $30,000 per year);
- some debt;
- capital gains exemption available; and
- estate freeze required.

Transfer Options by Structure

Note: The income tax and business considerations associated with each of the options below are complex and should be discussed with competent professional advisors. The information provided here is intended as an overview only.

Sole Proprietor

- outright sale with commercial mortgage;
- sale with mortgage back (retiring generation holds the mortgage);
- agreement for sale;
- promissory note;
- option to purchase.

Partnership

- admit farming successors as partners of the existing partnership;
- transfer partnership to a corporation;
- sell or gift partnership interests to farming successors.

Note: Transferring a partnership interest creates a one-time opportunity to make use of an additional capital gains exemption limit. If you are presently operating as a sole proprietor and are considering incorporation as a way to enable the transfer, it could be very beneficial to first form a partnership and then, after the required period of time (as per CRA rules), proceed to incorporate. Contact your accountant for more information.

Corporation

- Transfer existing shares of the corporation to the succeeding generation;
- Freeze the estate and transfer growth shares to succeeding generation.

Why is this relevant?

It is important to understand the different options available for ownership transfer of the farm business. Understanding options and their advantages and disadvantages allows the transitioning group to begin to formulate a preliminary plan that accomplishes the transition goals.

How will this help transition planning?

- All participants need to understand all of the available business structure and farm transfer options before making further decisions regarding the transition plan.

Business Structure Exercise

*** Each person involved in your farm's transition planning should complete this exercise.*

Instructions

1. Based on the preliminary decisions made in the Ownership Options Exercise (Topic 17 Part B) and the information included in the introduction to this section, answer the following questions as a group:
    a. Does the farm business currently have the correct structure to implement the preliminary decisions from the Ownership Options Exercise?
    b. If no, what changes might be beneficial or necessary to implement the preliminary plan?
    c. What questions would be useful to ask an advisor (especially an accountant) regarding current and potential business structure

changes?

2. If you are unsure about any of the different structures and/or how they might apply to your farm business situation, talk to an accountant and lawyer.

How does this apply?

Business structure is one of the most important parts of the transition plan. Selecting the appropriate business structure can help make your plan implementation more effective, and can help the business avoid paying tax unnecessarily.

You will refer to this exercise when completing Financial Performance: Transition Scenarios (Topic 17 Part D), at which point you will test your preliminary decisions to see if they are financially viable.

KEEP IN MIND:

- Regardless of how much you trust your accountant and lawyer, it is appropriate and wise to get a second opinion regarding your business structure. Seeking a second opinion does not mean you intend to change accountants or lawyers. Rather it is a double-check to ensure you have the best possible and most comprehensive information and understanding of this highly important topic. Consider the cost of a second opinion a small investment compared to the value of the assets being transferred.

WHAT TO WATCH FOR:

- Decisions around business structure and ownership options can be complex, include several options, and involve large sums of money. Make sure you have all the information you need to make the best possible and most informed decisions. Seek professional advice.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Financial Performance: Transition Scenario

In this section, your transition planning group will build on the historical financial performance analysis conducted in Topic 7 and the retirement financial needs calculated in Topic 5 to determine whether the transition scenario(s) you are considering are financially possible for your farm. (If the retiring generation did not complete the retirement calculator exercise in Topic 5, they should complete it now before proceeding with this topic).

The first step in this analysis is to prepare a baseline one to three year financial projection (estimate of financial performance) for the farm based on sales (production), expenses, and anticipated pricing. Keep in mind:

- For the purposes of testing your different transition scenarios, your financial projections should be based on your historical performance averages, **not** on how you expect the farm to do in the near term. This is because the projection is being used to evaluate long-term decisions and, therefore, should be based on long-term averages.
- Use conservative production, pricing and expense estimates to make sure the scenario you are evaluating will work if the farm encounters one or more bad years.
- The baseline projection should be prepared on a **no change** basis, as if the farm were to remain unchanged for the next one to three years. The baseline projection can be expanded to include a beginning and ending balance sheet or statement of net worth and monthly cash flow.

The next step in analyzing your transition scenarios is to add in the transition options discussed by your planning group. The list of transition factors can be very long and may be largely unknown in advance. Your farm's financial analysis should include any options discussed so far. Keep in mind that your plan is still only preliminary, so looking at every option is a worthwhile investment of effort.

Transition scenario factors may include:

- addition of / increase in wages to the succeeding generation;
- addition of / increase in wages or retirement draw for the retiring generation (Note that the retiring generation may want to consider the option of taking only what they need from the farm and/or taking additional money to allow for a retirement safety net);

- addition of / increase in draw for non-farming successors' estate/inheritance;
- the potential for other successors joining the farm in the future;
- farm business expansion/growth plans (and their associated revenues and expenses);
- new capital purchases;
- new financing;
- internally financed buy-out plans; and/or
- land or other rental payments.

Why is this relevant?

Your planning group may have discussed a number of transition options to date. It's important to understand the financial capacity and limitations of your farm when considering transition options. The final decision should depend at least in part on what works best financially for the operation. The Financial Performance: Transition Scenario analysis is a tool designed to test 'what-if' scenarios, providing insight and background to the discussions and decisions, and narrowing down your options to those that are financially realistic to implement.

How will this help transition planning?

- Knowing how possible transition scenarios are likely to impact financial performance is a vital component of making good decisions around transition.
- Discussing and then analyzing possible transition scenarios promotes open communication between planning participants.
- Open communication may help lessen potential for conflict.

Financial Performance – Transition Scenario Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should participate in this exercise.*

Instructions

1. As a group and with or without the help of a financial advisor/accountant, prepare a one to three year baseline projection for your farm. You can prepare this information using:
    a. a spreadsheet tool (Excel or other);
    b. the Agricultural Business Analyzer, a downloadable software available at http://www1.agric.gov.ab.ca/$Department/softdown.nsf/main?openform&type=ABA&page=information; or
    c. another farm projection tool of your choice.

2. Analyze the financial ratio results as discussed in Topic 7 (Financial Performance).
3. Determine whether the ratio results in the baseline projection are trending towards improvement or, at the very least, remaining acceptable?
    a. If yes, proceed with next step.
    b. If no, you can still proceed with the next step but be aware that adding a transition scenario is unlikely to, by itself, improve your financial performance. Instead, review the baseline projection and look for areas that can be changed so that financial performance can be improved before proceeding with a transition plan.
4. Add your transition scenario to the baseline projection.
5. Compare the financial information (ratios) from your transition scenarios to the financial targets that you established in Topic 7: Financial Performance.
6. You now have two options:
    a. If you are satisfied with the viability of the scenario and financial results, proceed to the next topic (Topic 18) in this Guide.
    b. If you are not satisfied with the viability of the scenario and financial results, try adjusting the scenario to find a combination of factors that work financially and still achieve your farm transition goals.
7. Store the documents for future reference.

How does this apply?

- Use the Financial Performance: Transition Scenarios Exercise to test multiple possible scenarios. The more scenarios your planning group tests, the more comfortable you will be with the scenario that you choose to put into your final transition plan. Look for a scenario that:
    - yields the best overall financial ratio results;
    - satisfies cash flow and debt service requirements;
    - accomplishes your transition goals while putting the least financial strain on the farm;
        - Example: While the farm could complete a retiring generation buy-out plan in 10 years, the retiring generation goals will still be met if the buy-out is extended over 20 years. This second option would meet transition goals but allow financial room for other farm-related opportunities that will likely occur in the future.
        - Is supported by your lender, accountant and other advisors;

KEEP IN MIND:

- If you are **unable** to find a transition scenario that yields acceptable financial results and accomplishes your transition goals, seek professional help. Consult your current advisors or speak to an Alberta Agriculture and Forestry farm business development specialist.

WHAT TO WATCH FOR:

- Including financial performance in your transition plan discussions can be complicated. It is important that you have the best financial information possible.
- If you are unsure or have questions about how various transition planning scenarios might impact your farm's financial performance, consult your current advisors for help or speak to an Alberta Agriculture and Forestry farm business development specialist.

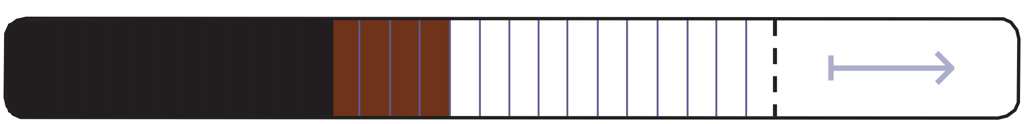
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



READINESS ASSESSMENT PLAN DEVELOPMENT

Topic 18: Preliminary Advisor Review

Your transition planning group has just worked through several topics that discussed various transition options. Though you should now have a better understanding of the options available, you will likely have many unanswered questions. It's now time to take your information and questions to professional advisors.

Why is this relevant?

Now that you have an idea of the transition option concepts and preliminary thoughts on your farm business's priorities and plan, you need professional feedback on how various transition options may or may not suit your unique situation. It is better to find out now, before committing to particular transition options, whether the options you are considering are feasible and optimal for your farm business.

How will this help transition planning?

Meeting with advisors can:

- build on your planning group's current understanding of the options, providing clarity, answering questions, and alerting you to potential roadblocks or concerns;
- clarify misunderstandings and answer questions, helping to keep the process from stalling;
- ensure all planning group members share information and understanding, helping keep communication lines open and minimizing potential for conflict;
- ensure your group has correct and comprehensive information and understanding before moving too far ahead in the planning process, which can save significant time and money.

Preliminary Advisor Review Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work through the following exercise*

Instructions

1. Update your Advisor Information Report (from Topic 14 Part E).
2. Prepare lists of questions for each advisor.
3. Determine who will be attending meetings with your advisors.
4. Schedule appointments for the meetings.
5. Send a copy of your Advisor Information Report to each advisor in advance of a meeting.
6. Include key questions so your advisors have time to prepare for the meeting.
7. Report back to planning group members after each meeting.
8. Store documents for future reference.

How does this apply?

The meetings will give you important information and clarity that will help direct your planning process.

KEEP IN MIND:

- Ask a lot of questions. Advisors will be able to help your group far better if they understand what you need to know.
- You may need to schedule a follow-up appointment after you have a chance to think about what you learn in the initial meeting(s).
- Money spent on advisor meetings is typically money well invested. The more you know and the more carefully a plan is built, the more likely transition is to succeed.

WHAT TO WATCH FOR:

- Some advisors require confidentiality agreements to be agreed upon and upheld for the protection of the advisor, the client, or both. Confidentiality may require that the details of your relationship not be shared with other advisors.

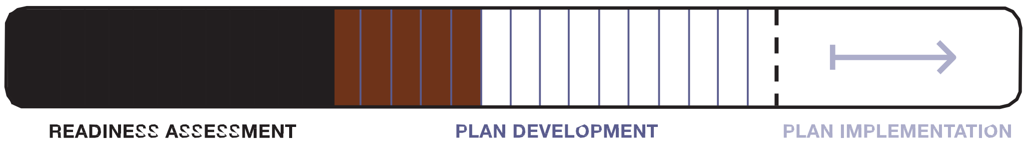
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 19: Estate Plan Elements

There is often confusion between transition planning and estate planning. Though they are distinct planning topics, they complement each other. Both are key in the successful transition of farm business ownership and management from one set of hands to another.

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills, legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance.

The purpose of Topic 19 is to begin to focus the retiring generation's thoughts on components of their estate plan. An estate plan should be created in conjunction with a transition plan.

Manitoba Agriculture offers an online publication called *A Guide to Farm Estate Planning In Manitoba*. This publication offers comprehensive information on estate planning in an agricultural context and will be referenced throughout Topic 19.

➢ *Part A: Estate Distribution*

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate. Providing clear estate plan instructions will ensure the retiring generation's estate is managed and distributed as they desire.

How will this help transition planning?

The retiring generation should understand estate distribution options and form preliminary estate distribution plans now in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and their successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Estate Distribution Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about estate distribution.
3. Write down questions that you can take to meetings with your professional advisors based on what you read. Questions should:
   - seek clarity on any estate planning concepts you find confusing; and
   - seek insight into how the estate planning concepts might best suit your situation.
4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the *Guide to Farm Estate Planning in Manitoba* and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues.
- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
    - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.
    - Successors should not make the mistake of expecting or feeling entitled to portions of an estate; rather, estate distributions should be viewed as a final and generous gift from the older generation.
    - The older generation should keep fairness among successors in mind where possible, understanding that perceived inequity between successors can cause serious harm to successors' relationships with each other.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Wills, Power of Attorney, Executor

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate.

This section is intended to inform transition participants (especially the retiring generation) about the key documents and individuals that will ensure your estate is handled after your death as you desire.

NOTE: ALL transition planning participants should complete a will. A will is a necessary and vital document regardless of your stage of life, and should be considered a key component in protecting a farm business's health and viability.

How will this help transition planning?

The retiring generation should understand estate decision options and form preliminary estate plans now in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Wills, Power of Attorney, Executor Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about wills, power of attorney and executors.
3. Write down questions that you can take to meetings with your professional advisors based on what you read. Questions should:
    a. seek clarity on any estate planning concepts you find confusing; and

b. seek insight into how the estate planning concepts might best suit your situation.

4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the *Guide to Farm Estate Planning in Manitoba* and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.
- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
    - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Insurance

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate.

This section is intended to inform transition participants (especially the retiring generation) about how insurance can impact one's estate. Life insurance can support beneficiaries, offer liquidity, and provide a tax-savings strategy for large estates.

How will this help transition planning?

The retiring generation should understand how insurance affects estate planning decision options in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and their successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Insurance Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about insurance.
    a. The Guide does not include a lot of information on insurance. You may

decide to arrange a meeting with an insurance advisor to learn more about the advantages and disadvantages of using insurance as part of your estate plan.

3. Write down questions that you can take to meetings with your insurance advisors based on what you read. Questions should:
    a. seek clarity on any estate planning concepts you find confusing; and
    b. seek insight into how the estate planning concepts might best suit your situation.
4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the Guide to Farm Estate Planning in Manitoba and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- It can be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.
- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues. Learning about insurance options early can save money in the future.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
    - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.

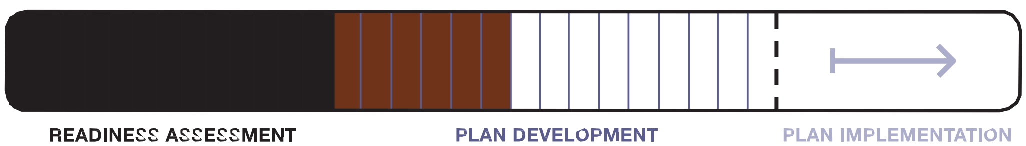
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 20: Human Resources

A business is only as strong as its people. Managing the human element of a farm business is vital to ensuring the business's success and viability.

Part A: Management Structure

In an organization of any size or complexity, employees' roles and responsibilities are defined by their job tasks and whom they report to. Managers' roles and responsibilities are defined by who reports to them.

In most businesses with few employees (including most farm businesses), the roles are assigned to specific individuals (i.e.: 'Joe supervises Ron'). In a business with a larger number of employees, the roles are assigned to positions in the organization rather than to specific individuals (i.e.: 'the production manager supervises the seasonal crop harvesters'). Relationships between these positions can be illustrated graphically in an organizational chart.

In many farm businesses, job roles are filled by family members. Often, the roles are general and assumed (i.e.: Dad looks after production; Mom handles administration and payroll and helps with production when necessary) rather than specific and expressly stated. Due to the large number of tasks that require completion and the small number of people available to do those tasks, farm staff tend to each handle/participate in multiple roles. Sometimes responsibilities are filled by default or by whomever has time to take on the task.

It can be challenging to find answers to complex supervisory and leadership questions in farm businesses, especially when family members report to other family members. Among other big questions farms must tackle:

- Who gets to manage what?
- Who gets to be the boss?
- How do you discipline a family member?
- Is there room for promotion?

There are an increasing number of farms where management positions are filled by outside (non-family) individuals. This situation eliminates some of the family-related challenges but introduces new challenges, specifically:

- External employees can become frustrated with the lack of management structure.
- External employees can be confused by/disagree with a management structure based on family dynamics rather than professional attributes and managerial know-how.
- External employees may question family structures and the "because that's the way we've always done it" decision making common on family farms.
- External employees tend to be less committed to the long-term success of a family farm.
- Family members may question whether an external employee will do an adequate and acceptable job.

Why is this relevant?

For the vast majority of farms, no formalized (written) management structure exists. While individuals involved in the farm have roles, those tasks and responsibilities are usually thought to be implicitly understood.

While it may feel strange to formalize working relationship structures in a farm business, especially if the employees are family members, doing so is very healthy for the business. Understanding and defining management structure is hugely important for farms that are in the process of transition planning, regardless of how many people are involved in the organization. Clarifying who reports to whom:

- means an employee knows where to go to when a question occurs or a problem arises;
- simplifies decision making;
- decreases conflict and frustration;
- improves efficiency;
- explicitly defines roles, increasing accountability;
- explicitly defines roles, fostering trust between employees; and
- sets the stage for more effective transition planning.

People working in the business should all clearly understand:

- whom they report to;
- who the main decision maker is; and
- what decisions they are permitted to make/are responsible for making on their own.

It is essential to organize your management structure so that each person has only one boss.

Transition planning presents an excellent opportunity to develop a formal management structure because:

- There will be a period during management transition where roles and responsibilities may be unclear.
- Transition planning adds an element of complexity to day-to-day operations.
- There will be more individuals involved, especially during the transition period.
- Transition is an opportunity to start fresh with new rules or ways of doing things.

How will this help transition planning?

Transferring management is one of the most important parts of transition planning.

- Effectively transferring the management significantly increases the likelihood of a successful transition.
    - Having people know and understand their roles and responsibilities helps reduce the potential for conflict.
    - A well-developed plan to transfer management to the succeeding generation can reduce the retiring generation’s concerns about giving up control.

Management Structure Exercise

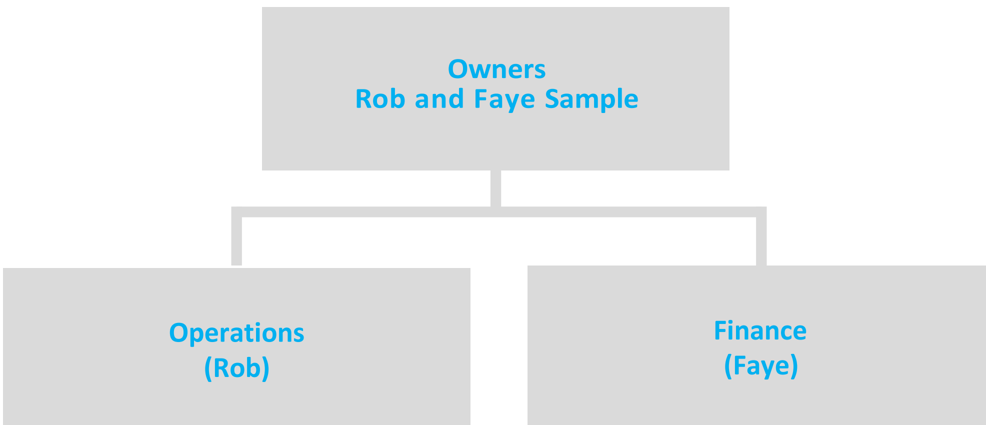
*** All members of the transition planning group should complete this exercise together.*

Instructions

1. Refer to page 342 in the Appendix for a blank copy of the Management Structure Exercise form.
2. Identify the various areas of management that together form the **current** overall management structure of the farm business. (Note that these roles are not necessarily full-time management positions.) Typically, managerial area include:
    a. operations (production),
    b. marketing,
    c. human resources, and
    d. finance,
    e. and may optionally include:
        i. environment,
        ii. technology, and/or
        iii. safety
3. Determine who is currently responsible for each of the management areas.
4. Outline the current reporting relationships within each of the identified management areas.
5. On a separate form/piece of paper, determine what will the chart look like after the transition plan is completed and being implemented (ie: three years from now).
6. Determine whether there will be any changes to the management areas.
7. Determine who will be responsible for each of the management areas.
8. Outline the reporting relationships within each of the identified management areas.

EXAMPLE:
Here is an example of what a partial Management Structure Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise using the blank form on page 342 in the Appendix.



How Does This Apply?

You will refer to this exercise when working through Management Activities (Topic 20 Part B) and Roles, Responsibilities and Authority (Part 20 Part F).

KEEP IN MIND:

- Try not to become bogged down in details. If your group finds this exercise difficult, make your best attempt to create a general overview and then review it on a regular basis. Time may help clarify this exercise.
- If your planning group has trouble identifying your farm business's areas of management and/or assigning responsibility for them (as per steps one and two above), try thinking through the exercise backwards:
    - Identify all the management personnel on the farm.
    - Identify which areas of management they are currently responsible for.
    - Write those management headings on your chart and assign the identified people to the headings.
- Review the structure annually and make changes as necessary.

WHAT TO WATCH FOR:

- One person may be assigned to more than one management area.
- It is not ideal to have more than one person responsible for a single management area. Though this may be the necessary reality for the current structure, try to ensure only one person is responsible for each management area when planning for the future.
- If two people are listed as responsible for a single management area, try to separate the responsibilities so that each is in charge of separate tasks/responsibilities.
- Though teamwork is positive, try to avoid creating the chart with a “We do everything together” attitude. While it is perfectly acceptable to discuss many management decisions with other farm managers, remember that:
    - Someone should ultimately be responsible for each management area.
    - Management transition is far more difficult if successors feel they need to get approval for every decision from the retiring generation.
- Discussing every decision and sharing every responsibility:
    - is inefficient and can lead to errors or gaps;
    - defeats the purpose of formalizing a management structure;
    - is not sustainable during the busiest times of the year or as the farm grows in size and complexity; and
    - slows the decision making process.
- Consider using an external facilitator if you are having difficulty with this exercise. It is very important that there is a clear management structure as you work through transition.

EXERCISE:

- Go to page 342 of the Appendix for a blank copy of the Management Structure Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Management Activities

In the Management Structure Exercise (Topic 20 Part A), your planning group identified your farm business's broad areas of management (ie: finance, production, etc.). In this exercise, your group will break each of those areas into a number of smaller management functions, and then assign those functions to specific management personnel.

Management functions are any job tasks that are managerial or supervisory in nature. For example, tasks such as developing a harrowing schedule or supervising an employee's harrowing work are management functions, whereas actually doing the harrowing of a field would not be a management function.

Why is this Relevant?

Working through the Management Activities Exercise is the next step towards creating a defined management structure.

For the vast majority of farms, no formalized (written) management structure exists. While individuals involved in the farm have roles, those tasks and responsibilities are typically thought to be implicitly understood. While it may feel strange to formalize working relationship structures in a farm business, especially if the employees are family members, doing so is very healthy for the business. Understanding and defining management activities is hugely important for farms that are in the process of transition planning, regardless of how many people are involved in the organization. Clarifying who reports to whom and who is in charge of what tasks:

- means an employee knows where to go to when a question occurs or a problem arises;
- simplifies decision making;
- decreases conflict and frustration;
- improves efficiency;
- explicitly defines roles, increasing accountability;
- explicitly defines roles, fostering trust between employees; and
- sets the stage for more effective transition planning.

How will this aid in transition planning?

The exercise will help:

- clearly identify management activities;
- determine who currently manages which functions;
- define what management activities need to be transitioned to the succeeding generation;
- align a farm business's management with its strategic direction;
- help all planning participants see a comprehensive overview of managerial responsibilities;
- promote communication among planning participants;

- reduce the potential for conflict; and
- improve farm managers' understanding of what needs to be done, creating clarity and purpose that will help attract and retain employees.

Management Activities Exercise

*** All members of the transition planning group should complete this exercise together, according to the farm business's* **current** *management structure (ie: the first management structure chart you developed in the previous topic).*

Instructions

1. Read through the list of management areas and activities detailed on page 343 of the Appendix. These are the most common areas and activities for farm businesses. Discuss where your farm business does or does not align with this management description.
2. Your farm business may have more, less or different management areas and activities than the ones listed. Add or delete activities according to your farm business's unique operating reality and both the first (current) and second (future) management structure charts you made in the Management Structure Exercise (Topic 20 Part A).
3. Where necessary, break the management activities into sub-activities to provide the best possible picture of your current management reality, and to divide activities among multiple managers if applicable.For each management area and sub-area, fill in appropriate information based on the current situation and an anticipated future reality (three years from now).
4. File these documents for future reference.

EXAMPLE:
Here is an example of what a partial Management Activities Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 343 in the Appendix.

Management Area	Management Activity	Sub-Activity (if applicable)	Who Manages the Work	Who Does the Work	Who Manages the Work	Who Does the Work
			Currently		*In 3 Years*	
Human Resources	Benefits		Faye	Faye	John	John
	Payroll		Faye	Faye	John	Rebecca
	Wages		Faye	Faye	John	Rebecca
	Performance Reviews		no one	no one	John	John
	Workplace Safety and Training		Faye	Robert	John	John
Marketing	Projected Yield		Robert	Robert	John	John
	Inventory Management	Inventory Reports	Robert	Robert	John	John
		Grain Marketing	Robert	Robert	John	John
		Grain Deliveries	Robert	Robert	John	John
	Advertising		Robert	Robert	John	Rebecca
	Website		Robert	Robert	John	Rebecca
Finance	Record Keeping		Faye	Faye	John	Outsourced
	Year-end Analysis		Faye	Faye	John	Outsourced
	Accounting		Faye	Faye	John	Outsourced
	Invoicing		Faye	Faye	John	John
	Accounts Payable		Faye	Faye	John	John
	Accounts Receivable		Faye	Faye	John	John
	Insurance		Faye	Faye	John	Outsourced
	Compensation		Faye	Faye	John	John
	Crop Insurance		Faye	Faye	John	Outsourced
Operations	Machinery		Robert	Robert	John	John
	Planning	Needs for Upcoming Year	Robert	Robert	John	John
		Usage Next Three Years	Robert	Robert	John	John
		Scheduled Maintenance	Robert	Robert	John	Employee
	Service Intervals		Robert	Robert	John	Employee
	Calibration of all Monitors		Robert	Robert	John	Employee
	GPS Equipment		Robert	Robert	John	Employee
	Trucking		Robert	Robert	John	Employee
	Safeties		Robert	Robert	John	Employee
	Manpower/Scheduling	Daily Work Schedule	Robert	Robert	John	John
		Weekly Work Schedule	Robert	Robert	John	John
		Monthly Work Schedule	Robert	Robert	John	John
	Nuts and Bolts Inventory				John	Employee

	Buildings		Faye	Employee	John	Employee
	Maintenance	General Buildings	Robert	Employee	John	Employee
		Bins	Robert	Employee	John	Employee
	Improvements		Robert	Employee	John	Employee
	Crop 1 - Canola				John	Employee
	Field Records		Robert	Robert	John	John
	Soil Test		Robert	Outsourced	John	Employee
	Fertilizer Recommendation		Robert	Outsourced	John	Employee
	Fall Fertilizer Application		Robert	Robert	John	Employee
	Spring Field Work		Robert	Robert	John	Employee
	Planting		Robert	Robert	John	Outsourced
	Pest Monitoring		Robert	Robert	John	Outsourced
	In-crop Spraying		Robert	Robert	John	Outsourced
	Harvesting		Robert	Robert	John	Employee
	Drying		Robert	Robert	John	Employee
	Fall Field Work		Robert	Robert	John	Employee

How does this apply?

Transition planning participants need a very clear understanding of their farm business's management activities in order to complete a transfer smoothly and with as little conflict and operational disruption as possible.

You will build on this exercise when working through Roles, Responsibilities and Authority (Part 20 Part F).

KEEP IN MIND:

- This exercise can be completed with the template provided in the appendix on page 343. However, using a computer spreadsheet program will allow you to make changes much more easily. Feel free to build your own management activities spreadsheet if you wish.
- **Note**: This exercise refers to employees. On farms where family members do the work rather than hired employees, consider family to be employees for purposes of this exercise.
- There may be uncertainty about what the farm business's structure will look like in three years. Make your best estimate about what you think needs to happen.
- Review the structure annually and make changes as necessary.
- Consider using an external facilitator if you are having difficulty with this exercise. It is very important that there is a clear management structure as you work through transition.

WHAT TO WATCH FOR:

- It is common for management activities to overlap each other, for managerial responsibility to overlap between two or more people, and/or for there to be uncertainty in how different activities are managed.
- One person may be assigned to more than one management area.
- It is not ideal to have more than one person responsible for a single management area. Though this may be the necessary reality for the current structure, try to ensure only one person is responsible for each management area when planning for the future.
- If two people are listed as responsible for a single management area or activity, try to separate the responsibilities so that each is in charge of separate tasks/responsibilities.
- Try not to become bogged down in details. If your group finds this exercise difficult, make your best attempt to create a general overview and then review it on a regular basis. Time may help clarify this exercise

EXERCISE:

- Go to page 343 of the Appendix for a blank copy of the Management Activities Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Job Descriptions

Most farms operate according to an ‘if it needs to get done, just do it’ attitude. Farm managers and employees typically do multiple tasks on an as-needed basis. Specific tasks are distributed based largely on who has done them in the past, and who is available and able to take them on at that moment. Because most farm businesses have few employees, farms rarely take the time to create formal job descriptions. While this system can and does work in certain situations for day-to-day farm operations, a lack of job descriptions and specific job tasks is problematic both during transition and as a farm business grows.

In the previous topics (Topic 20 Parts A&B), your transition group outlined a management structure for both your current and future (three year) realities, and then detailed your farm business’s specific management activities.

In the next section (Topic 20 Part D), your group will look at compensation. Job descriptions, which your group will develop in this exercise, are a vital link between management structures, activities and compensation.

Why is this relevant?

Transition planning requires thinking through the transfer of a farm’s ownership, management and labour. While retiring and succeeding generations may have a similar end goal for transition, they may have very different ideas of their roles and responsibilities during transition. Clearly defining management structure and activities, job descriptions and compensation are each key to helping ensure planning stays on track.

How will this help transition planning?

Writing formal job descriptions is beneficial in various ways throughout transition planning:

- Job descriptions provide clear ‘instructions’ regarding what needs to be done and by whom, which helps reduce confusion, errors, frustration, conflict and overlooked tasks, ultimately making for happier farm managers and employees and improving the farm business’s financial performance.
- Job descriptions define each person’s roles, which helps:
    - clarify appropriate compensation levels;
    - shape training and development requirements;
    - define performance expectations;
    - define job postings, helping to attract the right employees;
- As the succeeding generation moves into active farm involvement, job descriptions can help separate tasks so both retiring and succeeding generations know exactly what their roles are while the farm is jointly operated.
- Later, as the retiring generation steps more fully aside, job descriptions can help the succeeding generation move seamlessly into the roles the retiring generation is vacating.

Job Description Exercise

*** Key people (current managers and owners) involved in your farm's transition planning should take the lead on this exercise. The succeeding generation, regardless of whether or not they currently hold key or managerial positions in the farm business, should be involved in this exercise as well.*

Instructions

1. Select one or more individual(s) to research (via the internet or elsewhere) information about and examples of on-farm job descriptions.
    a. If it proves difficult to find good information, talk to an advisor or an Alberta Agriculture and Forestry farm business management specialist.
2. Once your group develops a good understanding of possible job descriptions and finds several good examples to refer to, work together to develop a job description for one of the management or labour functions on your farm.
3. Review the job description you have created with the larger planning group, if they were not all involved from the start of this exercise. Make changes where required.
4. If you have existing employees, get their input on the job description developed by your planning group. Make changes where required.
5. Once your group is comfortable with this first effort, move on to developing job descriptions for other positions.
6. Keep generic job descriptions on file, and file one job descriptions for each employee or family member in their personnel file.
7. Review job descriptions annually and make improvements or adjustments as required.

EXAMPLE:
Here is an example of what a partially completed Job Description Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 344 in the Appendix.

Position Title: General Farm Labourer

Reports To: Farm Manager

Date: April, 20xx

Job Description

Job Purpose/Objectives:

- *To assist farm manager in completing daily tasks in all departments of Sample Farms Ltd.*

Percentage of Time	Key Tasks
80%	**Activity 1:** *Grain Enterprise* - operate various pieces of harvest equipment including grain truck, combine, and auger - operate stone picker - act as assistant yard manager • *direct and organize incoming farm vehicles* • *complete end-of-day yard clean up and equipment servicing* • *prepare yard vehicles for daily tasks*
20%	**Activity 2:** *General Farm Labour* - perform various tasks as required

Education and Training:

Applicant must be a high school graduate. Agricultural degree or diploma is an asset but not required (students of these programs are encouraged to apply). Chemical safety course certification is essential; however, Sample Farms Ltd. will cover the cost of certification of a successful applicant who does not already hold this certificate. A Class 1 Driver's License is required. Applicants willing to complete the Class 1 licensing requirements will be considered. An on-farm training and development program will be established.

Experience and Skill Requirements:

No experience is required providing applicant is willing to go through rigorous on-the-job training. However, applicants who have a farm background will be considered over those who do not.

Supervision:

Supervision will be provided by Rob Sample.

Physical Requirements:

The successful candidate must be physically fit and able to conduct a variety of physical tasks including walking and lifting, etc. The work can be very physically demanding.

Salary Range:

Minimum: $x/hr *Maximum: $x/hr*

Work hours:

8:00 am – 5:00 pm; one hour of unpaid break time. Average 40 hours/week.

Overtime:

Seasonal

Benefits:

Two weeks paid vacation after one year increasing to three weeks after five years. Vacation cannot be taken during seeding or harvest.

Comments:

Opportunities for advancement will be considered after two years.

How does this apply?

Creating a job description for every farm worker, from paid labourer through most senior farm manager, greatly decreases confusion, stress, and misunderstanding, significantly increasing the chance of a successful transfer of management and labour to the succeeding generation.

PLANNING POINTERS:

- Developing job descriptions does not need to be a difficult task.
- When writing job descriptions, review your Management Areas (Topic 20 Part A) and Management Activities (Topic 20 Part B) and ensure ever area and activity is contained in at least one job description.
- Review job descriptions annually and make improvements and adjustments as required.
- Consider using an external advisor if you do not have the time or are concerns/questions about this process.

WHAT TO WATCH FOR:

- If you have existing employees, include them in the job description writing process. Forcing a complete and final job description on an employee may cause him or her to feel ignored, uninvolved or even undervalued. At worse, this may cause the employee to decide to leave.
- It is important that a job description is created for a function/role rather than an individual (ie: a job description titled ‘Farm Labourer’ is correct; a job description titled ‘John’ is problematic). The job description should stand independent of any individual.

EXERCISE:

- Go to page 344 of the Appendix for a blank copy of the Job Description Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Compensation

Compensation is one of the more challenging components of transition planning. Discussions around compensation are necessary during transition because the succeeding and retiring generations' financial situations typically change during the transition process. As discussed in previous sections:

- The retiring generation may want increased compensation to fund their retirement plans and/or gifts to non-farming successors.
- The succeeding generation may want increased compensation to fund the financial costs of taking over the farm and/or growing the farm.
- The succeeding generation may explore the option of giving up an off-farm job, but will require additional on-farm income to compensate.

Designing a compensation plan for a farm business brings up many questions:

- How is a fair wage determined for family members and non-family employees?
- How should shareholders be paid?
- How can we resolve disputes over compensation?
- How should family assets be handled?
- How should pay be impacted by performance?

The issue of fairness is difficult because each person will have a different concept of what 'fair' means. Those individuals who subscribe to a business-first farm operating philosophy would argue that 'fair' means compensation should be based on the job requirements; the employee's skill, experience, and initiative level; and the market rate for comparable jobs. Those individuals who subscribe to a family-first farm operating philosophy, on the other hand, might argue that the family is a team and all members of the family should be paid similarly regardless of what on-farm roles they handle. Others who subscribe to a family-first farm operating philosophy might believe that, if one of the successors is less successful than others (either on-farm or off-farm), that individual's compensation should be such that he or she can enjoy the same lifestyle as others in the family.

Money can move from the family farm business to individual family members in a variety of ways:

- wages, bonuses, merit increases, training allowances;
- dividends, ownership and equity gains in land;
- loans;
- gifts (housing, school, vehicles, etc);
- perks (vehicles, vacations, trips, business and personal expense allowances);
- inheritance, trusts and bequests;

Managing the Multi-Generational Farm. Farm Management Canada. Ottawa, Ontario

Why is this relevant?

A well designed compensation system that makes sense and is understood by everybody:

- maintains control and structure over pay;
- allows a business to accurately plan for its financial future;
- keeps the business on track;
- promotes individual development;
- provides a clear statement about work ethics and values;
- encourages individuals to accept financial responsibility for themselves;
- provides a clear understanding about the value of different jobs;
- promotes trust;
- motivates individuals to perform well;
- distinguishes between compensation and gifts.

An effective compensation plan also includes specific guidelines relating to the implementation of the transition plan.

How will this help transition planning?

- Discussing compensation and creating a clear compensation plan can help reduce the potential for hard feelings between:
    - On-farm and non-farm successors, since all successors are up-to-date and involved in compensation discussions.
    - Hired employees and successors who may be doing similar jobs but getting paid differently.
- Once developed, a compensation plan creates a more fair way of determining compensation for any additional successors who may return to the farm at a later date.

Compensation Exercise

*** Each person involved in your farm's transition planning and any other stakeholders (off-farm successors, hired employees, etc.) who have a vested interest in the farm business should work together to complete this exercise.*

Instructions

As a group, discuss the following questions. Record the answers. Identify areas of agreement and disagreement.

1. Will wages be paid? If yes, to whom (all/some)?
2. How will wage rates be determined (ie: market value, equal wages for all, perception of need, other)?

3. What criteria will influence wage increases (ex: inflation, cost of living, company performance, need, merit)?
4. How often will wage increases occur? Will dividends be paid? (NOTE: Even if your farm is unincorporated, the concept of dividends can still be applied.)
5. What will dividends be based upon (ex: farm equity growth, net income performance)?
6. Will bonuses be paid?
    a. If so, what will bonuses be based upon (ex: company performance, individual performance, achievement of training or education milestones, seasonal milestones such as Christmas or harvest, etc.)?
7. What will the farm business's philosophy be regarding gifts and entitlements (ex: gifts to successors, paid entitlements such as annual vacations, interest-free loans from the business, etc.)?
8. Will business perks be provided?
    a. If so, what perks will be provided (ex: phones, utilities, vehicles, fuel, business trips, housing etc.)? NOTE: Be sure to check with your accountant whether there are tax implications to the business perks you are considering.
    b. Will there be limits on perks?
9. Will training be part of the compensation plan?
    a. Will all employees have equal access to training?
    b. Will there be limits to the time and money invested in training? If yes, how much is allowable?
    c. Will training be mandatory?
    d. Will training be included in the calculation of merit increases or bonuses?
10. Will ownership of assets or shares of the company be part of the compensation plan?
    a. When will employees become owners?
    b. How will ownership amounts be decided and awarded?
    c. Will assets be transferred to individuals?
    d. Will the farm make payments on personal assets?
11. Will inheritances or bequests be part of the compensation plan?
    a. If yes, what are the criteria to earn an inheritance or bequest?
12. Create and write down a compensation philosophy according to the sample template included on page 345 of the Appendix.
13. Store the document for future reference.

EXAMPLE:
Here is an example of what a partially complete Compensation Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 345 in the Appendix.

Sample Farms Ltd. Compensation Philosophy

For Owners

- After five years of work on the farm, family employees can take their share of bonuses, wage increases and increases in partnership interest (or common shares of a corporation).
- Family employees with less than five years can accumulate their bonuses and merit pay.
- All owners and their spouses will meet once or twice a year. All persons attending will be reimbursed for reasonable travel expenses and paid a set per diem amount.
- All owners will receive a minimum amount per year.
- Dividends will be paid in the amount of two per cent of earnings.

For Family

- Tuition and student expenses will be paid.
- Loans for houses and vehicles will be available at attractive interest rates, based on management approval.
- Gifts will be given independent of the business.

For Family Employees

- Wages will be objectively determined.
- Wages will be somewhat conservative (ex: 75 per cent of market value) given family ownership and the variability of the farm economy.
- Wages will be determined based on the size of the job, responsibility, relevant training and experience, and working conditions.
- Wage increases and vacations will be based on years of experience, seniority and cost of living.
- Annual merit pay will be awarded. This will be based on jointly agreed-upon goals that will be determined at an annual performance planning meeting.

How does this apply?

Compensation is an area that can cause significant conflict if individuals feel they are not being treated fairly, or if they feel that someone else is taking advantage. Throughout plan development and once complete, a farm business's compensation philosophy should be shared with all planning group members. It should also be clearly communicated to any hired employees in order to maximize understanding and minimize conflict.

It is important to review the compensation policy at least annually:

- to keep it current;
- to address any issues with compensation that family/planning group members have;
- to avoid conflict regarding what individuals are paid.

KEEP IN MIND:

- Consider using an external facilitator if you are concerned about the potential for conflict. Discussions about money easily trigger disagreement and conflict.
- Review the compensation policy annually and make adjustments as necessary.
- Try to be fair and realistic about compensation, both in terms of underpayment and overpayment.

WHAT TO WATCH FOR:

- Both the retiring and the succeeding generations should be careful not to use financial control as a way to exert their power during transition.
- Do not pay someone more than is appropriate for the task they are doing. If there is a reason to reward them above what is appropriate for their job tasks, find other ways (ie: gifts, shares, perks, etc.)

EXERCISE:

- Go to page 345 of the Appendix for a blank copy of the Compensation Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part E: Roles, Responsibilities and Authority

One of the most difficult parts of transition is the transition of management, which requires the retiring generation to ‘let go’ of the farm business, passing operational control and management authority to the succeeding generation. This process does not happen overnight; rather, it is best undertaken as a gradual process in which management functions transition over time by way of a structured plan.

Many planning groups expect the transition of management to occur naturally and seamlessly when the succeeding generation simply steps in and begins working alongside the retiring generation. While this method may succeed, its lack of both structure and clear timelines makes it problematic and potentially frustrating for either or both generations. On the one hand, transition attempted via this method may mean transition to the succeeding generation never fully occurs. On the other hand, transition can occur very suddenly it the retiring generation decides to retire, becomes ill or, in a worst-case scenario, dies.

Why is this relevant?

A structured transition plan that, at a minimum, broadly lists when and how the transition will take place helps planning groups move beyond everyone working on every task together. It also helps individuals who find it difficult to let go of control commit to a step-by-step transition process.

How will this help transition planning?

Defining clear roles, responsibilities and authority, and then placing timelines on how those roles, responsibilities and authority will change over time as transition proceeds helps:

- stop responsibilities from ‘falling through the cracks’ or being missed during transition planning and implementation;
- promote open communication about the farm business’s transition of management;
- reduce the potential for conflict; and
- increase the likelihood of a successful transition.

Roles, Responsibilities and Authority Exercise

*** This exercise should be completed by all management team members.*

Instructions:

1. Refer to the job descriptions (created in Topic 20 Part C) and the management activities (listed in Topic 20 Part B).
2. Identify the roles and responsibilities that are currently being individually or jointly managed by the retiring generation.
3. List these tasks in the first column of the table found on page 347 of the Appendix.
4. For each task, write

   a. who is currently responsible;
   b. who the responsibility will need to be transitioned to;
   c. when the transition will start and be completed
   d. how the transition will happen from start to finish with the corresponding timeline.
5. Discuss with all members of the retiring and succeeding generations.
6. File these documents for working reference.

EXAMPLE:
Here is an example of what a partial Roles, Responsibility and Authority Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 347 in the Appendix.

Role or Responsibility	Currently Responsible	Transition Authority to:	Timeline	Action
Main Contact with Lenders, Accountants, Etc.	*Faye*	*John*	*one year*	*John and Rebecca to go with Faye and Rob to next meeting with lenders and accountants. Faye to communicate transition plan to advisors. Faye to defer all contact with professionals to John but remain available for support.*
Bookkeeping and Paying Bills	*Faye*	*Rebecca*	*two years*	*Rebecca to start shadowing Faye in these tasks. Rebecca to start paying bills and bookkeeping in six months with Faye's supervision and support. Change address with suppliers to John and Rebecca after one year and move bookkeeping over to their computer.*
Decisions Regarding Buyers, Suppliers, Etc.	*Rob*	*John*	*three years*	*Rob to include John in all decisions and negotiations. John to begin taking over contact with suppliers in six months; complete after 1.5 1.5 years. John to begin to take over contact with buyers after one year; complete after two years. Rob can stay involved but will not have final say after three years.*

How does this apply?

Keep this document on file and refer to it annually or as your situation changes. To help keep the information useful and current, ask:

- Are the transitions happening according to schedule?
- Have family members run into problems maintaining the transition plan timeline?
- Are there further activities that have been identified that need to be addressed?

PLANNING POINTERS:

- Do not skip this activity. This exercise may seem like something that can be put on hold until a later date. However, it is incredibly important to have these agreements in place **before** beginning your transition.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Giving up control can be very difficult for some individuals. A gradual approach can help individuals overcome concerns they have about letting go. A gradual approach is only effective if clear timelines are laid out up front.

EXERCISE:

- Go to page 347 of the Appendix for a blank copy of the Roles, Responsibilities and Authority Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part F: Training and Skill Development

Most farming-related training and development occurs on-farm. However, external training and development can be beneficial to individual farm workers and to the business as a whole.

Training and development opportunities exist through many organizations and at many events, including (but certainly not limited to):

- government
- agricultural trade shows
- local fairs and exhibitions
- banks, credit unions or other financial institutions
- insurance agents
- producer groups and associations
- producers publications and media outlets
- university agriculture departments
- agricultural colleges

Several popular agriculture-specific training programs/events for Canadian producers include:

- **The Executive Program for Agricultural Producers (TEPAP)**

  TEPAP teaches advanced agribusiness skills such as international business development, niche market evaluation, analyzing and forecasting financial position, personnel management, and negotiation.

- **Canadian Total Excellence in Agricultural Management (CTEAM)**

  CTEAM brings progressive farmers together to learn from each other, network and access top agricultural experts in Canada.

- **Farm Credit Canada (FCC) Learning**

  FCC learning events feature hands-on workshops and seminars designed to help agricultural producers improve management skills, capture information and insight, and gain a deeper understanding of issues that affect agriculture.

- **Farm Management Canada Agriwebinar®**

  The Agriwebinar® is a web-based conference featuring agricultural leaders who aim to inform and/or inspire. The Agriwebinar® is free and accessible to all.

- **Agritalent.ca – Government of Canada**

  This bilingual database provides concise listings of training and learning programs in agriculture offered across Canada. It was developed for producers, farm managers and other workers in the agriculture sector, as well as those without any farming experience who seek agricultural learning opportunities.

*Note: Contact information for all of these programs is available on page 311.

Why is this relevant?

While external training is beneficial to any business, time and dollars spent on training and skill development are especially important to farm businesses. A farm business's success typically depends on its small number of employees possessing (or acquiring through training) a large number of high level agronomic and management skills.

How will this help transition planning?

External training can:

- introduce new skills and/or hone existing skills;
- ensure operational/financial/management mistakes made by the retiring generation are not passed on to and repeated by the succeeding generation;
- improve the leadership and management abilities of the farm team;
- help the farm develop useful contacts and relationships within the industry; and
- help accomplish management transition plans.

Training and Skill Development Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work together to complete this exercise.*

Instructions

1. Refer to the Roles, Responsibilities and Authority chart completed in the previous section (Topic 20 Part E).
2. As you look through the list of job tasks the succeeding generation will take over, determine if anyone would benefit from external training.
3. If yes, research appropriate training resources/programs/events available through:
    a. the list above;
    b. an Alberta Agriculture and Forestry farm business management specialist; and/or
    c. other training opportunities or organizations.
4. Develop a training plan that includes:
    a. an annual budget;

b. who will attend courses or seminars;
c. when they will attend; and
d. if/how they will pass the learnings on to the rest of the farm team.

5. Review the training plan annually and make adjustments as required.
6. File this document for future reference.

EXAMPLE:
Here is an example of what a partial Goal Setting Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 348 in the Appendix.

TRAINING AND SKILL DEVELOPMENT – Sample Farms Ltd.

<table>
<tr><td colspan="3">Activity 1: Attend a workshop on financial management.</td></tr>
<tr><td colspan="3">Hosting Organization: Farm Credit Canada</td></tr>
<tr><td colspan="3">Location (if applicable): Ruraltown, AB</td></tr>
<tr><td colspan="3">Budget: $75.00 for travel costs</td></tr>
<tr><th>Who Attends</th><th>Dates</th><th>Follow-up</th></tr>
<tr><td>Rebecca and John</td><td>March 23rd</td><td>Report back to the family.</td></tr>
<tr><td></td><td></td><td>Determine if there’s value in attending the second workshop.</td></tr>
</table>

How does this apply?

Keep this document on file and refer back to it annually or as your situation changes. Use the following questions to guide the review:

- Are training plans happening according to schedule?
- Have family members run into problems maintaining the training plan timelines?
- Have further training and skill development areas been identified as necessary that need to be addressed?

WHAT TO WATCH FOR:

- If you have trouble finding a course or seminar with subject material that meets your needs, contact an Alberta Agriculture and Forestry farm business management specialist.

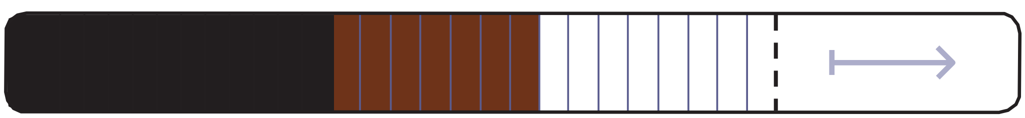
EXERCISE:

Complete the Training and Skill Development Exercise on pages 348 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 21: Agreements

A lot of business in agriculture gets done on the basis of a handshake. While the farming industry has long prided itself on its reputation for honesty and trust, the reality is that farming today is big business. Business deals based on formal agreements minimize disagreement and conflict, reduce stress and uncertainty, and can save both dollars and relationships.

Transition planning requires several agreements to be formalized. In addition, it is good operating practice to get into the habit of formalizing all business deals that involve two or more individuals, especially if money is involved (ie: employment contracts, marketing contracts, purchase contracts, etc.).

The information provided in this topic is intended as a basic overview only and does not replace the advice of a professional. Seek professional support in drawing up all agreements and contracts.

Part A: Unanimous Shareholder Agreement/Partnership Agreement

A unanimous shareholder agreement is an agreement between all shareholders of a corporation that outlines:

- ownership and voting rights;
- control and management rights, obligations and limitations;
- provisions for dispute resolution;
- details regarding how any future capital contributions or financing arrangements are to be made; and
- other provisions as dictated by the shareholders.

A similar agreement in a partnership is called a partnership agreement.

Though not all farm businesses create a shareholder or partnership agreement, it is **strongly** recommended.

This topic is **not** designed to create a legally binding document. Rather, it is designed to help transition planning groups identify the priorities they would like to formalize within an agreement. To be legally binding, shareholder and partnership agreements must be written by a lawyer.

Why is this relevant?

Clarifying expectations and formalizing an operating agreement between all shareholders/partners is important in any business, but particularly necessary when a business undergoes significant change such as transition. This exercise is useful for:

- existing corporations that already have a shareholder agreement in place but will need it to be modified or updated as part of the transition plan;
- existing corporations that do not have a shareholder agreement already in place;
- new corporations that will be formed as part of the transition plan;
- existing partnerships that already have a partnership agreement in place but will

need it to be modified or updated as part of the transition plan;
- existing partnerships that do not have a partnership agreement already in place; and
- new partnerships that will be formed as part of the transition plan.

How will this help transition planning?

Creating a shareholder/partnership agreement:

- promotes communication between partners/shareholders, whether they are on-farm or non-farm;
- clearly outlines financial, operational and management expectations, obligations, rights and responsibilities;
- provides a framework to resolve future conflicts;
- minimizes conflict, stress and misunderstanding; and
- forces transition planning groups to seek help from a professional advisor.

Unanimous Shareholder Agreement/Partnership Agreement Exercise

*** All partners/shareholders in your farm business should work together on this exercise.*

Instructions

1. As a group, review the list of shareholder/partnership agreement considerations on page 349 of the Appendix.

1. If you are modifying an **existing** shareholder or partnership agreement:
- Review your existing agreement.
- Work through each of the considerations listed on pages 295 to 298. Change, modify, or make notes on your existing agreement as applicable.
- Review your newly modified agreement with a lawyer.
- Input the lawyer's recommendations and necessary changes.
- Review again as a group.
2. If you are creating a **new** shareholder or partnership agreement:
- Work through each of the considerations listed on pages 295 to 298;
- Comment and document as applicable;
- Review your group's thoughts with a lawyer. Based on this discussion, your group may choose to:
    - draft an agreement based on your group's thoughts and your lawyer's recommendations, and then review this draft with your lawyer; or

- ask your lawyer to draft your thoughts and his/her recommendations into an agreement.

- Review again as a group.

How does this apply?

This exercise is designed to help transition planning groups begin to consider business, management and operating priorities that should be formally defined by a shareholder or partnership agreement.

KEEP IN MIND:

- Do not skip this activity.
- Do not defer this activity.
- This topic is **not** designed to create a legally binding document. To be legally binding, a shareholder/partnership agreement must be written by a lawyer.
- Consider using an external facilitator/lawyer if you are concerned about potential for conflict during the discussion surrounding this exercise.
- It is a huge advantage to put a formal agreement in place **before** you have to deal with issues about business structure. It is virtually impossible to come to agreement on how to resolve an issue once the issue is a reality, especially if there is conflict.

WHAT TO WATCH FOR:

- Your transition planning group may find that not all questions in the list on page 349 of the Appendix are applicable or necessary for your agreement, and/or may determine that additional details not covered in the list of questions may be necessary. In particular, not all questions will be applicable to those drafting a partnership agreement. It is recommended that transition planning groups talk through all of the questions as a group and then seek a lawyer's advice regarding which components to include or not include in a final agreement.

EXERCISE:

Complete the exercise outlined above, referring to page 349 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Business Agreements

Most farm businesses operate according to a handful or more formal and informal business agreements including supplier and customer contracts, lease arrangements, lending agreements, etc. All of these agreements will need to be reviewed and changed/updated during transition. In addition, outside individuals involved in any agreements will need to be informed that transition is occurring.

Why is this relevant?

Once the transition plan is mostly in place, it is necessary to update and make changes to all farm business agreements. In some cases, the alterations will be limited to changing names on the documents. In other cases, however, agreements may require more in-depth consideration and structural reworking. In addition, the personal relationships that accompany business agreements will need to transition to the succeeding generation.

How will this help transition planning?

Reviewing and reworking a farm business's business agreements:

- allows the succeeding generation to get a hands-on feel for the various agreements governing the business;
- ensures all business agreements are updated for transition and up-to-date, ensuring opportunities are not accidentally lost;
- fosters open communication between transition planning members;
- provides an opportunity for the succeeding generation to connect and build relationships with external partners; and
- is a proactive way to keep the farm business operating smoothly through transition.

Business Agreement Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together to complete this exercise.*

Instructions

1. Gather documentation about all business agreements in effect on your farm. These may include:
    - supplier contracts
    - customer contracts
    - lender agreements
    - trade-credit accounts
    - marketing contracts

- landlord contracts
- leasing contracts
- other business agreements

2. Review each business agreement individually.
   - Discuss the history of the agreement.
   - Discuss the existing terms of the agreement.
   - Determine whether the agreement needs to be updated, changed or adjusted.
     - Note any red flags or concerns.
     - Read carefully to ensure details like names and addresses are correct.
   - If changes are required, assign someone responsibility for ensuring the changes occur, and choose a completion date for this task.
3. Assign someone to contact external partners to inform them of the impending transition. Choose a completion date for this task.
4. Store the documents for future reference.

How does this apply?

Transition brings enormous change. Where change is necessary, it is best handled proactively and openly so all players know where they stand and what to expect. Where change is not necessary and existing agreements can roll over from the retiring to the succeeding generation, open discussion is equally important.

KEEP IN MIND:

- A good first step in active transition is for the retiring generation to formally introduce the succeeding generation to business partners, and then to include all parties in subsequent business meetings.
- After an appropriate time, the retiring generation should allow the succeeding generation to independently conduct some of the business with partners.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Once verbal agreement is reached on how transition will be handled, it can be tempting to put off formalizing agreements. Do not let this topic slip through the cracks.

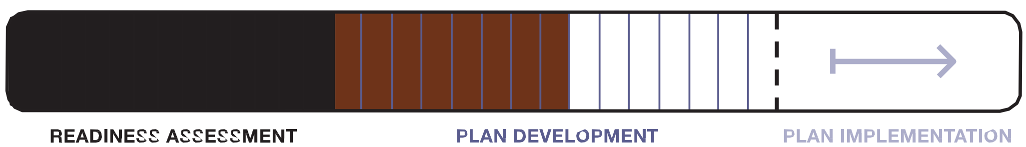
EXERCISE:

Complete the Business Agreement Exercise outlined above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 22: Deal Breaker Issues

Most farmers will have been involved in a transaction or business deal where, at the last minute, something changed and the deal derailed. Despite participants' best intentions and no matter how much planning effort they have invested, a similar derailment can occur during transition planning.

The transition planning process is long and involved, so is typically spread over many months. Frustration and conflict can arise because of the planning process, or the planning process can be a catalyst – the "straw that broke the camel's back" – causing underlying frustration and conflict to boil to the surface.

The purpose of conducting a review of deal breaker issues at this point in the planning process is to proactively determine whether or not issues exist that could derail transition.

The next steps in the transition planning process are to talk through your transition plan with professional advisors (lawyers, accountants, insurance and investment advisors). These discussions will cost money and are the first official steps in implementing your plan. Therefore, it is better to work through this review as a final check and to implement appropriate corrective actions where required before proceeding.

How will this help transition planning?

Discussing issues that may be unresolved or may become problematic in the future:

- is a proactive way to minimize conflict and maximize the potential for a successful transition;
- can save a significant amount of time, money and frustration; and
- will make meetings with advisors more productive.

Deal Breaker Issue Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should complete this exercise.*

Instructions

1. Individually review the Deal Breaker Issues section on page 353 of the Appendix.
   - Think back on the discussions that occurred within each of the question areas during the transition planning process.
   - Jot down notes as necessary.
2. Once all participants have reviewed the questions, discuss them as a group one by one.
   - Together, answer each question with a 'yes' or 'no'.
   - Write down any applicable comments. (If your group answers 'no' to a question, you may have no comments.)
3. If corrective action is required (usually when the answer to the question was yes), decide among participants what action is required. Write the required action down.
4. Decide among participants if all deal breaker issues have been identified and resolved. In

each section, answer whether, with corrective action, the plan can proceed to Agreements and Implementation?

- If the answer is no, stop the process and work to resolve whatever outstanding issues may exist.
- If the answer to the last question is yes, move to the next step in the transition planning process.

5. Store the documents for future reference.

EXAMPLE:
Here is an example of what a partial Deal Breaker Issue Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 353 in the Appendix.

DEAL BREAKER ISSUES

Complexities

Are there transition challenges outstanding that have not been dealt with?

Comments: *Yes, but follow-up plans have been made.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments: *The risk of insufficient management capacity can be handled to deal with farm growth. Yes stakeholders are committed to managing according to the action plans and financial targets.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any seriously negative feedback from professionals that cannot be incorporated into the plan?

Comments: *Yes stakeholders are satisfied and all feedback can be incorporated into the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments: *John and Rebecca have agreed to the compensation plan but Rob and Faye feel they may not be being realistic about the income they will need as a full-time farm family. They are worried John and Rebecca will come back asking for more money in a few years and that the farm may or may not be able to provide this increase in wages.*

Corrective Action (if any): *Go back to the financial plan and test out whether the farm can support increased wages.*

With corrective action can the plan proceed to the Agreements and Implementation topics? *Yes. If the plan shows the farm cannot support higher income levels, Rebecca has agreed to work off the farm if necessary.*

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments: *All stakeholders have agreed to the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Are we ready to proceed to Implementation? *(YES)*

How does this apply?

This topic is designed to put the transition planning process on hold briefly in order to encourage all participants to review potential trouble spots and deal breaker issues before the plan moves to implementation.

KEEP IN MIND:

- Try to make sure that all participants have input in this discussion.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
    - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
    - Does this exercise identify any underlying reasons for existing conflict in your operation?
- Store the document for future reference in case someone raises an issue in the future. You can point out that everyone had a clear opportunity to raise any concerns or objections.

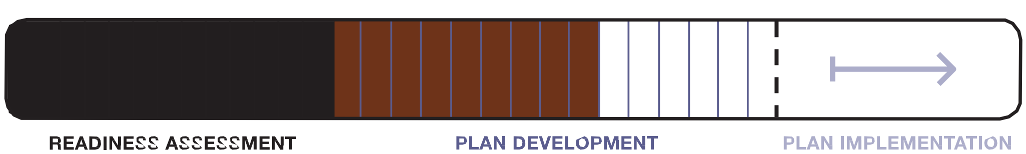
EXERCISE:

Complete the Deal Breaker Issues Exercise outlined above using the forms on page 353 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Chapter 7: Recap Checklist

Complete the following checklist as you work through the Chapter 7 topics. For each topic, mark the ‘Red Flag’ or the ‘Green Light’ checkboxes that best suit your planning group’s status upon completion of the topic’s exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

n

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 17 Part A: Successor Assessment	☐ We were unable to complete this topic’s exercise. ☐ We do not have the information we need to complete this exercise. ☐ According to the assessment, the leadership and management skills of our farm business’s successor(s) are less than desired. ☐ Some or all of us were unable to decide/agree upon where our farm’s successor(s) could and should improve their leadership and management skills. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic’s exercise. ☐ According to the assessment, the leadership and management skills of our farm business’s successor(s) are adequate or strong. ☐ We were able to decide/agree upon where our farms’ successor(s) could and should improve their leadership and management skills.		
Topic 17 Part B: Ownership Options	☐ We were unable to complete this topic’s exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline a preliminary plan for how, when and what assets will transfer to non-farm and on-farm	☐ We completed this topic’s exercise. ☐ The retiring generation was able to outline a preliminary plan for how, when and what assets will transfer to non-farm and on-farm successors.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	successors. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.			
Topic 17 Part C: Business Structure	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to determine how assets should transfer to successors. ☐ The retiring generation was unable to agree on how assets should transfer to successors. ☐ Some or all of us were unable to understand/determine the best business structure for our farm business. ☐ Some or all of us were unable to get the information we needed from an advisor regarding business structure and asset transfer options. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ The retiring generation was able to determine and agree upon how assets should transfer to successors. ☐ We were able to understand/determine the best business structure for our farm business. ☐ We were able to get the information we needed from an advisor regarding business structure and asset transfer options.		
Topic 17 Part D: Financial Performance: Transition Scenario	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us did not consider multiple transition options. ☐ Some or all of us are unwilling to return to this exercise at a later date when new factors that could	☐ We completed this topic's exercise. ☐ We considered multiple transition options. ☐ We understand that our actual transition may be influenced by factors that we do not yet know, so we may need to return to this		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	influence transition surface. ☐ Some or all of us have conflicting understanding of our farm business's current financial situation and/or conflicting expectations of possible future financial performance. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	exercise and do it again at a later date when these new factors surface. ☐ As a group, we understand our farm business's current financial situation. ☐ Our individual expectations of our farm business's possible future performance, as influenced by various transition options, generally align.		
Topic 18: Preliminary Advisor Review	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We do not yet have advisors in place. ☐ We met with our advisors and they determined that our plan has very significant challenges/gaps/issues. ☐ Some or all of us do not feel that our questions were sufficiently answered by one or more of our advisors. ☐ Some or all of us still have many questions and/or concerns regarding our transition plan or the planning process to date. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We have trusted advisors in place. ☐ We met with our advisors and they determined that our plan does not have significant challenges/gaps/issues. ☐ We feel that our questions were sufficiently answered by our advisors. ☐ We feel comfortable with our transition plan and the planning process to date.		
Topic 19 Part A: Estate	☐ We were unable to complete this topic's exercise.	☐ We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Distribution	☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline a preliminary estate distribution plan. ☐ The retiring generation has conflicting priorities regarding the estate distribution plan. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ The retiring generation was able to agree upon and outline a preliminary estate distribution plan.		
Topic 19 Part B: Wills, Power of Attorney, Executor	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline questions for advisors regarding their wills, power of attorney and executor. ☐ Some or all of the retiring generation has not written a will and/or designated a power of attorney and executor. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ The retiring generation was able to outline questions for advisors regarding their wills, power of attorney and executor. ☐ The retiring generation was able to organize their wills, power of attorney and executor. ☐ The succeeding generation was able to organize their wills, power of attorney and executor.		
Topic 19 Part C: Insurance	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us (particularly members of the retiring generation) do not understand how insurance might be of use during transition.	☐ We completed this topic's exercise. ☐ We (particularly members of the retiring generation) understand how insurance might be of use during transition. ☐ We have considered		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	whether insurance might be a fit with our farm business.		
Topic 20 Part A: Management Structure	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand why creating a formalized management structure is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's management structure. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand why creating a formalized management structure is important for our farm business. ☐ Our individual understandings of our farm business's current management structure generally align.		
Topic 20 Part B: Management Activities	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand why outlining formalized management activities is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's management activities. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand why outlining formalized management activities is important for our farm business. ☐ Our individual understandings of our farm business's management activities generally align.		
Topic 20 Part C: Job Descriptions	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we	☐ We completed this topic's exercise. ☐ We understand why outlining		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	need to complete this exercise. ☐ Some or all of us do not understand why outlining formalized job descriptions is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's job descriptions. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	formalized job descriptions is important for our farm business. ☐ Our individual understandings of our farm business's job descriptions generally align..		
Topic 20 Part D: Compensation	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We have conflicting expectations regarding compensation ☐ Some or all of us have conflicting expectations regarding key compensation priorities (how fair wage is determined, how shareholders should be paid, how compensation should be tied to performance, etc) ☐ Our compensation philosophy does not align with our farm business's financial reality. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ As a group, we understand our farm business's current financial situation. ☐ Our individual expectations regarding fair compensation and key compensation priorities (ie: how fair wage is determined, how shareholders should be paid, how compensation should be tied to performance, etc) generally align. ☐ We were able to formalize a compensation philosophy. ☐ Our compensation philosophy aligns with our farm business's financial reality.		
Topic 20 Part E: Roles,	☐ We were unable to complete this topic's exercise.	☐ We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Responsibilities and Authority	☐ We do not have the information we need to complete this exercise. ☐ Some or all of us are unwilling to discuss the transition of roles, responsibilities and authority. ☐ Some or all of us have conflicting expectations regarding the transition of roles, responsibilities and authority. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We are willing to discuss the transition of roles, responsibilities and authority. ☐ Our individual expectations regarding the transition of roles, responsibilities and authority generally align.		
Topic 20 Part F: Training and Skill Development	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We were unable to identify what training might be useful for key members of our transitioning group. ☐ We were unable to find appropriate training opportunities for key members of our transitioning group. ☐ We have conflicting ideas of what training is necessary for key members of our transitioning group. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We were able to identify what training might be useful for key members of our transitioning group. ☐ We were able to find appropriate training opportunities for key members of our transitioning group. ☐ Our individual ideas of what training is necessary for key members of our transitioning group generally align.		
Topic 21 Part A: Unanimous Shareholder Agreement / Partnership Agreement	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have conflicting understanding and or conflicting	☐ We completed this topic's exercise. ☐ We understand our farm business's existing shareholder/partnership agreement OR we		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	expectations regarding our farm business's existing shareholder/partnership agreement OR the need for a new shareholder/partnership agreement. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	understand why our farm business requires a shareholder/partnership agreement. ☐ Our individual expectations regarding a shareholder/partnership agreement generally align.		
Topic 21 Part B: Business Agreements	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us are unwilling to update business agreements and/or transition agreements to the succeeding generation. ☐ Some or all of us have conflicting understanding of our farm business's current business agreements. ☐ We identified significant red flags in some or all of our existing agreements. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We are willing to update business agreements and transition agreements to the succeeding generation. ☐ Our individual understanding of our existing business agreements generally align. ☐ We did not identify significant red flags in any of our existing agreements.		
Topic 22: Deal Breaker Issues	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We identified one or more deal breaker issue(s). We were unable to identify suitable corrective action	☐ We completed this topic's exercise. ☐ We identified one or more deal breaker issue(s). We were able to identify suitable corrective action to counter the issue(s).		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	to counter the issue(s). ☐ Some or all of us have conflicting understanding of our farm business's deal breaker issues and/or the corrective actions required to counter identified issue(s). ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ Our individual understanding of our farm business's deal breaker issue(s) and any necessary corrective action(s) generally align.		

From **Topic 17 Part A, Chapter 7** (Phase 3: Plan Development)

Successor Assessment

Leadership	Score
Creates and effectively communicates a clear vision.	
Recruits a team to achieve business and operational goals.	
Treats partners, employees, third party vendors and all other stakeholders as important.	
Recognizes the importance of complementary characteristics and builds a team with diverse strengths, skills and abilities.	
Creates a positive, constructive, results-oriented working environment.	
Recognizes potential areas for conflict and proactively mitigates the negative impact.	
Knows that a leader strives to create other leaders and creates opportunities for others to excel.	
Displays good business customs and sound ethics.	
Delegates with clear responsibility and accountability.	
Accepts criticism and uses failure as a learning opportunity.	
TOTAL	

Management	Score
Selects team members based on their respective skills and abilities.	
Performs all tasks, duties and responsibilities with an owner's determination.	
Is committed to continuing education, additional training and self-study.	
Demonstrates excellent financial management.	
Uses technology to increase efficiency, improve effectiveness and cut expenses.	
Demonstrates clarity, patience and commitment to employee training, operational safety and hazard avoidance.	
Delegates effectively, encouraging others to take on and accept responsibility.	
Effectively prioritizes and demonstrates good time management.	
Understands personal relationships and operational politics using good communication.	
Is a good planner, using thorough analysis, goal setting, budgeting and record keeping.	
TOTAL	

From **Topic 17 Part B, Chapter 7** (Phase 3: Plan Development)

Ownership Options

Ownership

1. Are you looking for an interim arrangement at this stage, or are you considering a full sale transfer?
    a. Are you prepared for a complete change from farmer to creditor or, if a bank / financing company is involved, to a passive investor?
    b. Will one or more successors want to become involved later?
    c. How important is it that you retain ownership of some of the assets?
    d. If there is an interim arrangement, how concerned are you that the farming successor might not be satisfied with how the overall plan will ultimately unfold?
    e. Could you work with your successor on a partnership basis?
        i. Do you communicate well together?
        ii. Could you treat your successor as a business partner?
2. Are you concerned about the stability of your farming successor's marriage?
    a. This can be a significant issue because if there is a marriage breakdown, an estranged in-law could acquire a larger share of your estate than your own non-farm successors.
        i. Does your successor's marriage seem strong?
        ii. Would you prefer not to transfer significant assets at this time?

Control

1. Is it important that you control the management of the farm for a period of time?
    a. Is it important that you have some degree of control while you still have a significant investment in the farm?
    b. Is it sufficient that you have some influence over major decisions such as the future purchase and sale of assets?
    c. Do you want to continue managing the farm?

Security

1. How much importance do you place on financial security?
    a. Is the retiring generation prepared to act as a lender, carrying the successors' loan on a sale of assets or shares? Does the retiring generation expect successors to buy them out in whole or in part? If the retiring generation does act as banker, will they want interest in the first few years of the agreement?
    b. Is the retiring generation prepared to guarantee any bank indebtedness that successors might take on to buy out the retiring generation?
    c. Does the retiring generation want their name to remain on ownership titles until the successor completes all payments for the farm business?

On-Farm Living

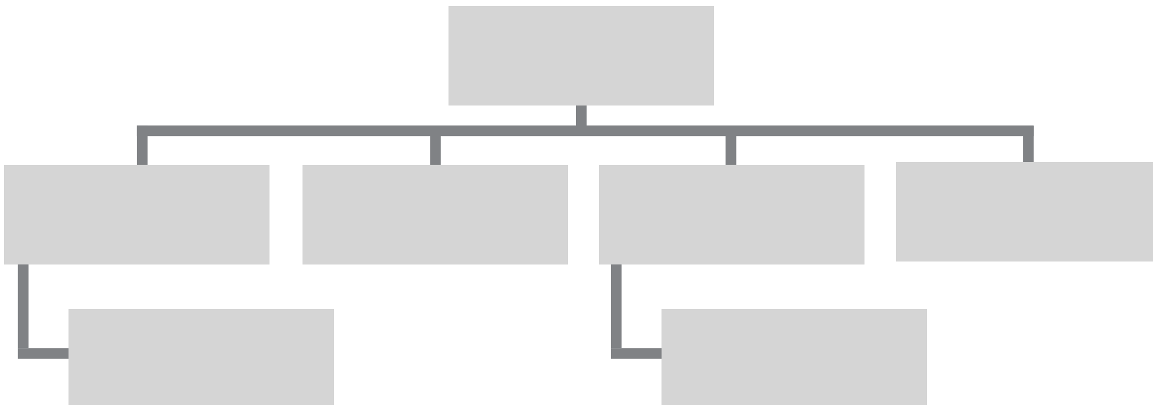
1. Does the retiring generation want to continue living on the farm or move away?
2. Does the succeeding generation want/need to move onto the farm?
3. If an additional home is needed, will the retiring generation or the succeeding generation move into the new house?
4. Can the existing farm house be sub-divided from the farm?
5. What is the cost of housing in town, if necessary?

Equal vs. Equitable Treatment of Successors

1. What assets does the retiring generation plan to ultimately pass to non-farm successors?
    a. Are there non-farm assets that they might inherit?
    b. Are there any insurance policies that they might inherit?
2. Will the retiring generation be able to build up non-farming assets from the payments that the farming successor makes (that could at some point be passed on to your non-farm successors)?
3. Is it likely that the non-farming successors will inherit a receivable from farming successors or hold an interest in the farm?
    a. If so, how important is it that the farm successor's ability to run the farm not be put at risk?

From **Topic 20 Part A, Chapter 7** (Phase 3: Plan Development)

Management Structure



From **Topic 20 Part B, Chapter 7** (Phase 3: Plan Development)

Management Activities

Management Area	Management Function	Sub-Function	Who manages the work	Who does the work	Who manages the work	Who does the work
			Currently		*In 3 Years*	

From **Topic 20 Part C, Chapter 7** (Phase 3: Plan Development)

Job Description

Position Title:

Reports To:

Date:

Job Purpose/Objectives:

Percentage of Time	Key Tasks
	Activity 1:
	Activity 2:

Education and Training:

Experience and Skill Requirements:

Supervision:

Physical Requirements:

Salary Range:

Work hours:

Overtime:

Benefits:

Comments:

From **Topic 20 Part D, Chapter 7** (Phase 3: Plan Development)

Compensation Philosophy

For Owners

For Family

For Family Employees

For Non-Family Employees

From **Topic 20 Part E, Chapter 7** (Phase 3: Plan Development)

Roles, Responsibilities and Authority

Role or Responsibility	Currently Responsible	Transition Authority to	Timeline	Action

From **Topic 20 Part F, Chapter 7** (Phase 3: Plan Development)

Training and Skill Development

Activity 1:		
Hosting Organization:		
Location (if applicable):		
Budget:		
Who Attends	**Dates**	**Follow-up**

From **Topic 21 Part A, Chapter 7** (Phase 3: Plan Development)

Unanimous Shareholder Agreements

List of Agreement Considerations

Terms of Agreement: Because circumstances change, consideration should be given to the term of the agreement. Consider:

- Should there be a set termination date (ie:10 years)?
- Should the agreement be terminated upon the death of a shareholder or should it be perpetual?

A. Provisions for Control

- How many members will there be on the board of directors?
- Will each shareholder be entitled to a nominee on the board?
- What will constitute quorum for a meeting of the board?
- Who will be the officers of the corporation?
- Will the directors and officers be paid by the corporation? If so, how is their remuneration determined?
- Which officers will be authorized to sign cheques and other banking documents on behalf of the corporation?
- Will two signatures be required for cheques over a certain limit?
- Who can bind the corporation in regard to other legal/financial matters?
- How will auditors, accountants and lawyers be chosen?
- How will meetings be called (ex: mail, other, how many days in advance)?
- Who will be notified of formal and informal meetings?
- Who will vote at the meetings?
- Will votes be decided by simple majority or special majority?
- What circumstances will require a special majority?

B. Operation and Finance of the Corporation

- If funds are required by the corporation, how are those funds to be obtained?
- Will these funds be obtained by the corporation borrowing from a financial institution?
- If the corporation is otherwise unable to obtain these funds, will the shareholders be required to provide guarantees?
- If guarantees are provided, will they be limited guarantees and will guarantor liability be joint and several?
- If the corporation is unable to obtain the required funds with the assistance of shareholder guarantees, will shareholders be required to provide loans to the corporation? Will shareholder loans be secured?
- If shareholder loans are secured, under what conditions can a shareholder enforce his right to payment?
- How will profits be distributed (salaries, bonuses, dividends, repayment of shareholder advances)?
- Will shareholders be allowed to work for the corporation?
- What are the powers of the shareholders regarding terminating another shareholder who is an employee of the corporation (ex: for causes such as failure to perform duties)?

C. Restriction on the Transfer of Shares

- Will there be a restriction on the transfer of shares?
- If so, will this restrict the ability of a shareholder to pledge shares to a bank or transfer shares to a family member or related corporation?
- If the shareholders are corporations, should the shareholders be restricted from transferring shares of the shareholder?

D. Death of a Shareholder

- In the event that a shareholder dies, should the estate be bound to sell the deceased's shares to the other shareholders, to the corporation for cancellation, or permitted to keep the shares?
- If an estate is required to sell and the corporation or remaining shareholders are required to purchase the shares, should there be insurance policies on the lives of the shareholders to ensure that the other shareholders of the corporation can afford to purchase the shares in the event of death?
- If insurance policies are required, should the corporation pay the insurance premiums?
- Upon death, how should the purchase price for the shares be paid (ex: a percentage at the time of the sale and the balance paid in equal consecutive monthly instalments over a period of years with or without interest)?

E. Events Requiring a Mandatory Sale by the Shareholder

- Which events should result in a shareholder being required to sell all of the his or her shares of the corporation:
- The death of the shareholder?
- The disability of a shareholder, which results in the shareholder not being able to devote the time and attention required by the corporation?
- The shareholder reaching a certain age (ex: 65 years)?
- A default by the shareholder under the shareholder agreement or any related agreement?
- The insolvency of a shareholder?

F. Disability of a Shareholder

- If a shareholder is employed by the corporation, should the shareholder be entitled to continue receiving compensation in the event of a disability?
    - If so, for how long?
- How should disability be defined?
- Should a shareholder be required or have the option to sell shares if a disability continues for an extended period of time?

G. Right of First Refusal

- If a shareholder is entitled to sell shares of the corporation to a third party, should that shareholder be required to first offer the shares to the other shareholders on the same terms and conditions as the bona fide third party offer?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be entitled to require the third party purchase their shares as well (piggy back rights)?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be forced to sell their shares to the third party if the third party wishes to purchase all of the corporation's outstanding shares (drag along)?

H. Buy/Sell

- This provision allows a shareholder to provide notice to all other shareholders advising them of a set price for purchase of all the other shareholder's shares or for sale of all owned shares to them. Once a shareholder triggers the buy/sell it is then up to the other shareholders to determine if they wish to be buyers or sellers.

I. Call:

- Should a shareholder be entitled to require one or more other shareholders to sell their shares in the corporation upon notice?
- If so, should this right be exercisable immediately or only after some period of delay? How will the price be determined?
- How will the price be paid?

J. Put:

- Should a shareholder be required to purchase another shareholder's shares at the option of that other shareholder?
- Should this right be exercisable immediately or only after some period of delay?
- How will the price be determined?
- How will the price be paid?

K. Pre-emptive Rights

- If the corporation wishes to raise additional funds by issuing and selling new shares from treasury, should the existing shareholders have the first opportunity to purchase the new shares?
- If any shareholders do not wish to purchase these new shares, should the remaining shareholders be entitled to purchase the additional shares, which may result in their holding a disproportionate number of shares?

L. Dispute Resolution

- Should the shareholder agreement contain a clause that requires arbitration in the event that a controversy or claim arises which cannot be settled among the shareholders?
- Should shareholders be required to attend mediation prior to starting an action if a claim cannot be settled otherwise?

M. Non-Competition/Confidentiality/Non-Solicitation

- Will the shareholders be required to promise that while they are shareholders they will:
    - Not compete with the corporation in any manner?
    - Not solicit any of the corporation's clients?
    - Promise to keep all confidential information they receive confidential?
- Should the terms of this clause be extended so that it applies even when the individual is no longer a shareholder?
    - If so, how long should the non-competition/non-solicitation clause continue and what is the geographic scope of the covenant?

N. Valuation of Shares

- Will the shares of the corporation be valued for sale purposes:
  - By a predetermined formula?
  - By the shareholders themselves?
  - By endorsing a schedule to the agreement?
  - By a third-party valuator/auditor?
- How often will the shares be valued?

O. Employment

- If one or more of the shareholders is employed by the corporation, should typical employment provisions be included in the shareholder agreement to protect the shareholder, the corporation, or both?
- Should salary levels be agreed upon for some pre-determined period of time?
- Should notice of termination of employment periods be agreed upon?
- Should employment automatically terminate if a shareholder sells his shares?

From **Topic 22, Chapter 7** (Phase 3: Plan Development)

Deal Breaker Issues

Challenges

Are there transition challenges outstanding that have not been dealt with?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any significant negative feedback from professionals that cannot be incorporated into the plan?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Are we ready to proceed to Implementation? (YES/NO)