Enterprising Rural Families™

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TIP OF THE MONTH

The definition of the rural family business includes:

- The principals of the business are related by marriage or kinship.
- Family members include the principals and do the work.
- The family lives and works in the same location.
- The principals own and manage the business.
- Business ownership and managerial control are transferred between generations with the passage of time.

A critical distinction between the family system and business system is in the management of key issues. Family and business consultants tell business owners to keep family life and work life separate. However, this is not possible for members of a family business. The two systems are dynamically intertwined.

The basic motive of the family is to seek harmony while that of the business is to seek profit.

"*Who are the 'Real Family Members' in the Family Business*"

Succession Issues for Family Business

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(Reprinted with permission of the author from a presentation at the 2005 Wyoming Bankers Association Ag Bankers Conference)

(This is the third in a four-part series on family issues related to the family business, including succession planning).

Who are considered the "real family members" in the family business? Are only the "blood related" family members the ones that are to be included in financial or business decisions, have management authority, or even the chance for ownership? Are the in-laws considered or even treated as "family" in the business? Do the in-laws involved in the family operation actually have a voice in business matters or even allowed to make their own management decisions? Or, are they kept in the dark about the operation and even excluded from any business decisions being made by other family members?

Relationships of trust between family members fail when someone finds out that decisions are being made by others that impact their well being and future happiness, but they are not allowed to be a part of that decision. This leads to suspicions and a lack of trust for others. For example, Dad and son make the decision to buy another ranch and put the present ranching operation farther into debt. This means more work (longer hours) for both of them and more financial stress in meeting these added debt repayments. Yet the daughter-in-law was not included in this final decision. She finds out after the new ranch has already been purchased and now she is told to just sign the mortgage loan papers. Her family happiness has been impacted (husband has less time for her/the children and he will be more easily upset when things go wrong due to the added work load and financial stress). The daughter-in-law feels isolated in the family and excluded from this family operation even though she may be living right on the ranchstead.

The Issue of the Non-Business Children

As Mom and Dad work through a plan to pass the ownership of their business onto the adult children that may be working with them, the sensitive issue of the non-business children comes into play. **How do the parents treat all of their children fairly and equitably in their estate plan?**

Initiate estate planning early.

This is a rather delicate issue because parents may have **favorites among their children.** But to avoid the problems of jealousy among these children and the grudges that evolve over time, it is very important that parents block out their personal feelings of favoritism and devise an estate plan that allows for the succession of the business to the next generation in a fair and equitable manner. This will require much thought, many hours of discussion by the parents and children, and seeking professional help as needed. Too many times these decisions are made under time pressure ("we have to do something NOW") or under emotional stress (just after the death of one parent). **The key is to plan ahead and start these discussions early in the process. It is the responsibility of the parents to initiate this estate planning process.**

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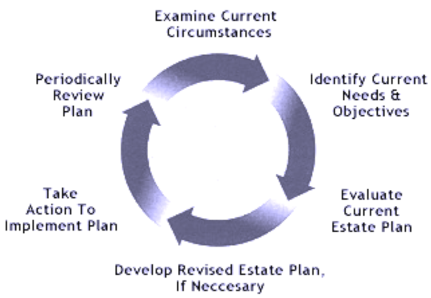
Family operations are the most difficult to handle in terms of fairness among all the children. As the children were being raised, some worked harder than others and may have contributed more to the parents' operation. Also consider that some children care more about the business and the well being of the parents in their later years of life; while some children could care less about the business and are only interested in how much money they may receive from the estate.



The parents must sit down with all their children together and talk through this issue. Then allow all the children to express their feelings in an open and honest manner. Most parents try to avoid this very issue because there is too much emotion involved. Some parents even ignore this entire issue and just assume that the children will work it out later by themselves. This only results in a lot of bitterness and feuding among the children which can result in a family split among brothers and sisters that can last for the next generation. Update the issues in family meetings as often as needed.

The Issue of Salary or Pay for the Business Children

Determining what is a fair wage or salary for the adult children working in the business can be a difficult question facing the parents. What salary amount the parents feel is fair and what salary amounts the adult children feel they need for a reasonable standard of living may not even be close to each other. The critical problem is that the adult children need enough earnings to cover their family living expenses and still be able to save some money toward building financial equity for their future. Many times the business is not able to financially support two families (or more). This often forces one of the spouses to take employment away from the business to earn the added income necessary for family living and to have some extra money for what they might desire.

In determining what is a fair wage or salary, it is important to pay the adult children based on what work they actually do in the business or contribute to the business. Their salary should never be based on what they are expected to do or what they are assumed to be doing.

Another complicating factor is the type of work being done or contribution to the business. For example, two sons ranch with Mom and Dad. One son is very involved with the crop and livestock enterprise. He puts in long hours and works in some very unpleasant weather conditions. The other son does the ranch records and spends most of his time at the computer working on financial statements. He helps out with the outside work on occasion when needed. Should both sons be paid the same salary? Is their contribution to the ranch business valued the same? What if one son is older and has already worked more years on the ranch? Should that make a difference in their salary?

One final concern to consider is overpaying the adult children for little or no work. This can cause problems with non-family employees who are expected to perform a full day's work every day. The hired help gets stuck with the extra work that should have been done by someone else. Yet that other person still receives a full paycheck while the hired help makes less even though they did more work. If this happens, don't expect the hired help to be around very long.

(*"Who Gets the Legacy"* is the focus of the final issue in this series on **Succession Issues for Family Businesses.)**

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