The Dispatch

Family Business Insight for your Agriculture Company
June 2023: Family Business Transitions Gone Wrong

When I moved to Kansas in 1990 to become a professor of history at Sterling College (where I was Lance's professor), I decided to assign a book for my students entitled *Things Fall Apart*, by Nigerian novelist Chinua Achebe. His story described, in heart-breaking detail, the disintegration of a family and a community because of internal struggle, struggle with neighbors and because of the presence of Christian missionaries. It was a difficult "go" for many students, but I was committed to the notion that things fall apart at least as often as they succeed. This issue of the Dispatch confirms that hunch. We deal here not with graphic details of things gone awry but how things can easily go wrong in the family business, especially when transition is in view. Davon looks at ownership issues; Ethan writes about pitfalls in management transition; and Lance looks at the transition difficulties from the perspective of the family. We hope you enjoy this month's version of Dispatch; let us know your thoughts. *Bill*

Faulty Assumptions in Ownership Transitions

Davon Cook

Four aspects of transitioning ownership are often taken for granted, but all four merit healthy debate.

Some say: **"It's my estate plan; I don't need to consult my heirs.** They will be so grateful, they won't mind finding out later they're co-owners (perhaps in a complicated trust) with family members."

My suggestion: When being financially generous, talk with your successor owners about their concerns, questions, and goals. And for next generation owners who will be managing a business together: Instead of joining forces because that's the norm, make a clear choice to be business partners.

Some say: **"Being equal in my gifts to the next generation is fair.** We treat our children equally so there are no favorites."

My suggestion: Being equal is not always fair, especially if your children played different roles in the growth of your business. You could reward sweat equity with more ownership. You might consider the assets that best fit each person's circumstances, regardless of value. You might include an in-law. Think through the many possibilities.

Some say: "Avoiding estate and income taxes is the most important goal, over all others."

My suggestion: Evaluate your strategies to minimize tax more broadly. Compare the financial gain to the potential (and often unintended) family relationship costs of shared business or asset ownership.

Some say: **"They don't know much about business yet, but they'll figure it out eventually, like I did.** Plus, our accountant knows our business, so they'll have good guidance if I'm suddenly gone."

My suggestion: Provide education for the next generation about how to be competent stewards. Help them learn to read financial statements, understand banking, insurance, and other key management and ownership topics. Those working in the business learn over time, but heirs in non-business fields often need more help. You can start in middle or high school and scale throughout early adulthood.

Communication Failures in Management Transitions

Ethan Smith

We expect our employees to buy into the mindset or values of our business, whether it's the long hours, constant availability, or just the psychological commitment they make to the company. In considering management transition planning, we need to look at both the next generation owners as well as the key non-owner team members.

I've had the unfortunate experience of delivering the news to long-term employees (family and non-family) that a business was either selling, divesting of one enterprise, or that the next generation was selling out completely. Often the first things that come to mind are the informal conversations that they've had with owners about being "taken care of" if something happens. They will struggle to recall details, but when these conversations aren't written down or witnessed, they tend to be "null and void."

Not everyone wins when a decision is made to change or terminate a business. Rarely does an employer receive praise. But the blow of negativity can be lessened if a venue is provided for voicing questions and concerns. The owners have likely spent hours, days, or months contemplating the decision to change or end the business. They have worked through the strategy, numbers, and emotion to be at peace with the choice. But without the chance for the key employee to take part in the conversation, the situations can turn ugly, and resentment reigns.

My recommendation is to plan ways to talk with employees, especially if a major change, sale, or termination of the business is contemplated. They will have requests, but their requests are not always monetary. The courtesy of a conversation and expressions of appreciation go a long way.

Relationship Mistakes in Family Transitions

Lance Woodbury

As Ethan and Davon point out, handing a business from one generation to the next, or changing management strategies in the process, is not easy. Clarifying your ownership principles, and getting your management structure right, requires strategies that may seem counter-intuitive to how you think a "family" business should run. And, from a family perspective, we can often be our own worst enemies. Here's how:

1. **Sweeping family conflict under the rug**. By not talking about tough issues, family members are often hoping the situation will go away or get better in the future. But the opposite happens: perceptions of past events become reality and people operate based on assumptions about each other's rationale.

2. **Bringing the next generation home too quickly**. When the next generation is interested in the family business, it can be tempting to bring them home right after college. By not giving them a chance to work elsewhere, be supervised outside of a family context, and really learn who they are apart from their family, they may not develop a healthy sense of "differentiation," of being their own person, which will impact the family's ability to function well in the future.

3. **Tolerating different standards for acceptable behavior**. Family members often get away with behavior we wouldn't tolerate in a non-family employee. Deep down, we are afraid to fire them; it feels like we would be cutting them off as a family member. But the consequence of allowing poor behavior creates low morale in the business and does more to harm family relationships than if dealt with immediately.

Being in business as a family can be a blessing, but *keeping* the family together takes work — just like *building* a business takes work. By avoiding the pitfalls we've mentioned in this issue of the Dispatch, you can accomplish both!