Woodbury: Farm Family Business

To Pay or Not to Pay?

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Bio

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Grain farm returns and balance sheets have soared in recent years, far beyond anyone's reasonable expectations. Now the question of how family members should be compensated becomes a discussion point in many operations. Conservative operators know this Disneyland economy won't last forever, so they may want to stash reserves for the return to normal. Meanwhile, off-farm heirs or siblings see the operating income potential and sometimes wonder about returning to the farm. Spouses who sacrificed lifestyle during hard times and startups hope for a raise if not a new house.

How farm families reward themselves in peak income years can become a point of contention. (Photo by trishhartmann, CC BY 2.0)

While many families I know approach compensation relatively conservatively, they still have questions about how pay should be handled when there is plenty of money. Here are some principles to help think through compensation issues:

PAY BASED ON THE JOB, NOT NEED OR MONEY SUPPLY

I firmly believe that compensation should be tied back to the value of the position. In a survey we conducted of a dozen larger family agriculture business clients' 2011 data, family member employees' average pay was between $60,000 and $66,000 before adding in the value of benefits (the range was between $35,000 and $85,000). Because it was a small group, this number may not be indicative of the market, but at least it gives us some reference point.

If you have non-family employees, you probably have a guide to what the market may be in your area. My suggestion is that you stay in the ballpark of this market, knowing that compensation will increase with additional management responsibilities. Furthermore, paying a family member more because of what they were making outside of agriculture can cause issues when times get tight. The caveat would be a family member who brings a useful perspective, particular skill or leadership talent that warrants a significantly different level of compensation.

THINK TWICE BEFORE EQUAL PAY FOR FAMILY AFFILIATION

While paying family members equally does work in some businesses, more often than not I've seen resentment and conflict develop because people feel like they are making different contributions to business success but not being rewarded accordingly. The problem is that a management perspective calls for differentiated compensation levels (this happens in non-family businesses), while a family perspective generally calls for equal treatment, because we all love our kids equally!

To deal with the parents who want to treat children equally but know they shouldn't, I sometimes ask to exclude them from the compensation discussion. I may have them give some broad parameters for the discussion before they leave, such as defining a dollar pool that might be used for compensation adjustments. But if the kids can develop a process for arriving at differentiated compensation levels without the parents in the room, it can strengthen their future working relationship. And as long as the kids stay within reason, the parents are often thankful the kids came to agreement without them.

CONSIDER A BONUS, BUT MAKE IT CLEAR IT IS A BONUS

When businesses have good years, they will often pay a bonus. The trick is to make sure people see it as a bonus and don't build it in to their annual compensation expectation. This requires communication -- and not just one round of talks -- but an integration of the bonus approach into the culture of the business. If you decide to pay a bonus, be clear about the conditions that created the bonus, what might create that

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bonus in the future, and reinforce your intent that bonus compensation is at risk, meaning that some years it will be there and other years it won't.

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SEPARATE OWNERSHIP, BONUSES AND FARMILY GIFTS

A key distinction in family businesses is to recognize when good financial results should accrue to management or to owners. Good crop prices or land appreciation, for example, might suggest that additional revenue go to those who put capital at risk in those enterprises. Great teamwork during harvest, a well-executed marketing plan or crop insurance decision by management, a low death-loss ratio for livestock, or keeping the sprinklers running during the drought suggest that additional revenue might go to family and non-family employees. Finally, parents sometimes want to simply give their kids a financial gift. If you are planning to distribute cash, be clear about the reasons behind the distribution.

At the end of the day, most parents hope that additional compensation is appreciated by those who receive it. Cultivating that sense of appreciation is the foundational work that goes on years before you have an income windfall.

EDITOR'S NOTE: Lance Woodbury has spent 20 years as a consultant to farms and family owned businesses in Garden City, Kan., with a special emphasis on mediation and conflict resolution. He is also the author of "The Enduring Legacy: Essential Family Business Values." E-mail suggestions for this column to Lance@lancewoodbury.com

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