

Woodbury: Farm Family Business

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Bio

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Over the years I've witnessed a number of family business members work for a very low wage in anticipation of a financial or farmland windfall at some later point in their career. They are promised -- or they assume -- they will receive a greater-than-equal share of the farm or estate as compared to their off-farm siblings because they stayed on the farm. However, the windfall they often experience is one of resentment and frustration toward the parents, of conflict between siblings and sometimes the feeling of a wasted career.

In a number of cases, family members were never in actual agreement about future compensation. People assumed a particular intention or outcome, or interpreted one another's comments in ways that led to eventual disagreement. Another significant contributor to the conflict was simply that circumstances changed. For example, another family member decided to return to the business, or an off-farm sibling went through a divorce, which altered the parents' thinking about their distribution of assets. Or, the business went through a down cycle and the debt and asset make-up of the enterprise changed. In a number of cases, health care, nursing home or other necessary living costs changed how the parents were thinking of maintaining, and keeping, their financial resources.

In better situations, a returning family member might be paid closer to a market-value wage, or is compensated with equity in land or equipment or ownership in an entity and they are accumulating assets as a result of their involvement. But if your personal balance sheet is not growing, and you are working for a significantly lower wage than you might get outside of the family business, it is time for a family meeting. In too many operations, family members are operating on unspoken hopes and expectations about what will transpire in the future. And while you may choose to work for a lower wage without explicit (i.e. written) guarantees of future compensation, everyone should be clear about what is going on. A family meeting will help provide that clarity; here is a framework you can use for the discussion.

First, schedule the discussion so that everyone is prepared to talk about compensation issues. If you launch into the discussion without warning, or at the end of a frustrating day, or if you and your spouse just show up some evening at your parents to open such a sensitive topic, you may find it difficult to have a productive discussion or make headway, and you may do damage to the effort. Get everyone's agreement to sit down at a specific place and time for the discussion.

Second, before you get to the meeting, think through what you want. When it comes to non-family members or a non-family business, compensation discussions are often approached as a negotiation. The parties have some idea of what they want or can live with, and they approach the process with a goal to land in an acceptable range of remuneration.

Even though yours is a family business, you should similarly take time to get clear on what fair compensation looks like to you and your family from an individual perspective. In other words, think of it like a negotiation! You may require a minimal amount of cash compensation, but want equity in the operating entity, or a favorable opportunity to buy or inherit family land. Or you may want a higher salary and benefits and have the opportunity or first right to purchase your siblings' interest at market value after your parents pass away. The point is, think through what is most important to you and have a sense of what is acceptable prior to opening up the discussion.



Family members often work at below-market wages. But resentments can simmer if they have no formal guarantee of equity in the business. (DTN graphic by Nick Scalise)

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Third, when you begin the family meeting, talk first about your overall compensation philosophy as a business. Is compensation based on the market, that is, what other non-family agriculture employees or supervisors are paid? Is it based on what family members need to live, to cover basic expenses, and if so, how are those "necessary" expenses determined? If there are several siblings involved, is compensation to be equal regardless of each individual's contribution?

This philosophical discussion is important because it tells you how big the differences are without necessarily fighting over the numbers. If the philosophy is to pay family the bare minimum, but you want or need more, you either need to change the philosophy, negotiate off-farm work or business opportunities, or leave. If the philosophy is to pay all family equally, can you live with that if you feel you are putting in a greater effort or performing better?

I know of one business in which they pay family members slightly less than the market, to account for the longer-term growth in family member equity while staying close to what they might get elsewhere. I know another family business where all the siblings take equal salaries regardless of their needs or performance levels. Yet another family business pays the rate at which family members could have jobs off the farm in a more corporate setting, to account for various skill and education levels. The point is, before you ever get to the discussion about specific dollars, can you get behind the philosophy that drives compensation?

Finally, once you have agreement on the compensation philosophy, you can work with the numbers. If taking a market-based approach, some of the agricultural employment firms have surveys, or you might check with your accountant or banker as they may know what other farmers are generally paying. If returning family members have been working in a non-family business, you will know the alternatives they have to family business involvement, and often they are willing to take some discount in order to come home and participate in the family business. If using the "all family members are paid equally" approach, understand the basis for determining the dollars everyone receives. In short, having some good data to work with, and having a sense of what your family can live with, provides good reference points for the discussion.

Even though a compensation discussion ultimately gets to numbers, beginning with the right approach to the process, doing some deeper thinking about your personal wants and needs, and articulating the guiding principles of payment for family member involvement will make getting to an agreement on the numbers much easier.

EDITOR'S NOTE: Lance Woodbury works as a consultant to family-owned and closely-held businesses in Garden City, Kan., with a special emphasis on business planning, mediation and conflict resolution. He also maintains an interest in his family's western Kansas ranch. E-mail comments or suggestions for this column to lance@lancewoodbury.com.

You can hear Woodbury speak at the DTN-Progressive Farmer Ag Summit's "Pass It On!" workshop Dec. 9 in Chicago. For details go to www.dtnpf.com/go/agsummit

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