When Succession Means Splitting Up

Circumstances may make it beneficial to end an operation rather than struggle in the future.

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In the course of planning for the future of the family business, there are sometimes reasons to consider splitting up. While no one likes to talk about ending a multigenerational enterprise, it may be necessary. If that becomes the case, then "ending well" should be a primary goal.

REASONS TO SPLIT UP

Here are some reasons it may be time to split up the family farm.

› **Lack of successors.** In rural communities and agriculture businesses, a trend has been for members of the next generation to move away. Community amenities, labor demands, risk management and capital requirements for a farm or ranch are just a few of the reasons the next generation sometimes chooses to work elsewhere or live in a more urban environment.

› **Different visions or goals.** Sometimes, family members working together have different visions of what the future should look like. Disagreements about business growth, debt, employee management, roles or financial distributions can lead family members to decide that pursuing goals separately is a better option.

› **Tax strategy.** In some cases, family members are in business together because the preceding generation minimized its estate tax risk through the creation of partnerships or corporations, requiring siblings or cousins to become owners together. Family members did not willingly choose to be business partners and thus may be ready to go back to being just a family.

› **Growing apart.** Family members often come back to the business and help it grow by expanding different enterprises, for example, crops, livestock, ag retail, grain storage or custom work. Such divisions of labor can lead to businesses that are in a better position to stand alone, and occasionally, not desire to maintain a relationship where land, labor and capital are shared.

PLANNING STRATEGIES

Regardless of the reasons for ending or splitting up the business, there are some strategies that can help with the planning.

› **Agree on the pros/cons of your current course.** Since ending or splitting up a business is a significant change from the past, make sure everyone understands the reasons for the change. Taking time to talk about demographic and economic realities, or jointly admitting you have different goals helps to frame the future as a joint problem to be solved.

GETTY IMAGES

› **Articulate different courses of action.** All family businesses, while sharing similar challenges, have a unique history, culture and family dynamic. Your future path and specific strategy for splitting up should take into account these particular dynamics. Use advisers who will seek to understand each person's interests and goals so a solution might be crafted that meets as many people's interests as possible.

› **Manage your expectations.** A good agreement to split often means finding solutions everyone can live with (their "interests," as mentioned above) versus finding solutions everyone wants. Every individual needs to give a little to find a solution that works well for the whole group.

› **Keep the process moving.** It often takes decades to create a unique farming and ranching business and culture. Splitting up does not happen overnight, and depending on the size and complexity of the business, it can take months or years to unwind, particularly when you consider the income tax ramifications. Commit to continuing meetings that identify the next steps to move forward.

Choosing alternatives to succession—splitting up—is not failure. Instead, failure is splitting up in a way that hurts one another and drains the family's equity on legal fights. A collaborative, consensus-driven process to end well can serve family relationships for generations to come. ///