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Ensure Continuity In Your Family Business

When considering the future of the farm or ranch, most family members want the business to continue. The land might represent a legacy to pass on to others. The assets might provide an opportunity for future family members to create wealth. The senior generation often receives immense satisfaction in seeing the decades of effort and energy they poured into the business successfully transfer to the next generation of owners.

However, certain tendencies by senior-generation family members can create the opposite result. The hard work toward continuity is unwittingly undone by those most concerned for the future. Consider these five behaviors that create uncertainty in the family-business transition.

1 **A failure to plan for the future.** Several factors cause the senior generation to avoid planning. Disagreement between parents can cause a stalemate. A fear of mortality can foster indecision. The complicated nature of transitioning land, equipment and livestock while minimizing taxes can feel overwhelming. Conflict among the younger generation may leave the parents with a lack of clarity. Whatever the reason, a lack of planning generates anxiety about the future, which ultimately harms the business.

2 **A focus on equal asset ownership.** Many parents feel they should treat their children equally when completing their estate plan. This stems from a family culture and expectation of equality in our love for one another. But, when this culture is mixed with financial assets and applied to heirs—some of whom have invested their career in the farm or ranch, and some who worked elsewhere—a focus on equality can create significant financial challenges. On-farm heirs may lose control of their livelihood or have no good way to buy out a majority of off-farm heirs because of the voting power that naturally follows ownership interests.

3 **A focus on equal compensation.** This same tug of equality can cause the leaders of the business to compensate equally each family member who did return to the business, regardless of their management contribution. Or, the family member who has been back for one year gets the same pay as the family member who has been back 10 years. This is particularly irritating to the in-laws of working family members who usually see quite clearly the disparity in management contributions or longevity with no differentiation in pay.

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4 **A lack of acknowledgment and feedback.** We often assume that family members who grew up in the same household know what is expected of them. We also expect family members to know that they are loved—and don't need to be "told" as much. In an employment context, however, these assumptions work against the establishment of a professional work environment. It helps to clarify what results are expected in certain jobs and to offer feedback on how people are performing. Those are table stakes in nonfamily businesses. But, in many family businesses, the only kind of consistent feedback is negative, if any feedback is given at all.

5 **Forcing the next generation to be business partners.** In their desire to transition the business, parents sometimes give the company to their adult children, who may be incompatible as business partners. As long as the parents are alive and involved, they act as the glue that holds the business, including the next generation, together. But, when parents retire or pass away, conflict consumes the family, and the business suffers.

Decades of farming or ranching experience provides the knowledge of how to avoid major mistakes in operating your business. The problem with business transitions, however, is that you only go through them a couple of times, making it difficult to practice. These five behaviors lay out the common issues or mistakes that can derail business succession efforts and give you some insight into getting the transition right. ///