

Set Up The Next Generation For Success

Owners of family farms and ranches often hope some or all members of the next generation will return to the family business. A son, daughter or grandchild; a sibling partnership; or a group of cousins may represent the legacy of past generations and the future stewardship of the family's assets.

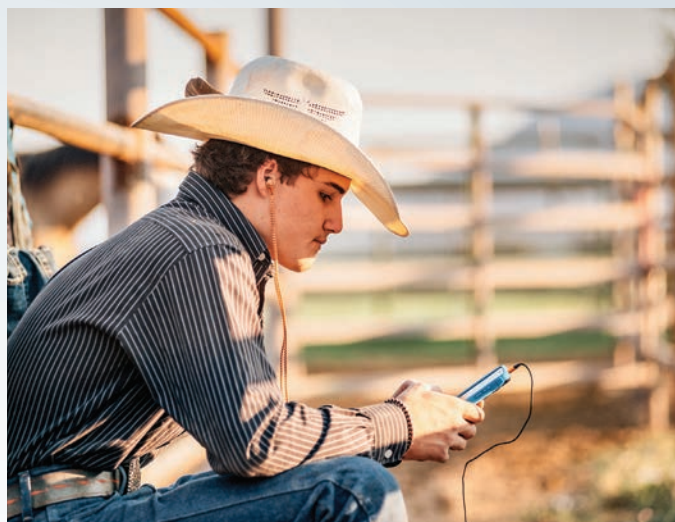
However, the transition from one generation to the next isn't always easy. The shift often happens while the business is growing, while younger family members are learning and while older family members are trying to let go. It's like changing a tire while the truck is moving down the road.

There are a few guidelines that help set the stage for a successful return of the next generation. Consider these strategies as you plan for its involvement.

Opportunity not obligation. Parents want their children to choose fulfilling careers, hoping the next generation's passion includes participating in the farm or ranch. But, if you "expect" your children, grandchildren, nieces or nephews to return, they may not feel the freedom to choose. A feeling of guilt or a sense of obligation may drive their decision, and later in life, they may resent the business or feel trapped. The result is a business plagued by behavioral and relationship problems.

Encourage responsibility early. When family members of the next generation are in the teenage years, reward them for being responsible. For example, hire them to care for animals or equipment, or to perform a specific, regular job outdoors or in the office. Have them track their time, then pay them for their work. Doing so will help them develop a sense of contribution, importance and self-esteem, all while hopefully fostering an interest in the business.

Spend time away. As difficult as it may seem, encourage members of the next generation to spend time away from the family and business in the late teens and early to mid-20s. First, urge them to pursue an education: college, technical or trade school, or the military. Second, push them to work outside of the family business, preferably in a larger business. Some families encourage internships between college years and then one, two or more years working for someone else. The goal is for younger family members



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to become aware of their strengths and weaknesses by answering to someone other than a parent. Plus, when they return, they can bring a few good ideas.

Pay the market. Many families pay a lower wage to family members in return for "sweat equity," which is a delayed promise of ownership. The dangling of this ownership carrot, often with nothing in writing, turns into a major problem when parents change or fail to complete their estate plan, or if they decide to give off-farm siblings assets that the on-farm sibling needs to survive. Paying a market-based wage makes the choice to return, and the conversation about ownership, much clearer.

Plan for ownership. Speaking of ownership, many families take an estate-based approach, putting off conversations about ownership transfers until the senior generation is quite old. Or, they take an ad-hoc approach to land and equipment purchase decisions, complicating financial, entity and estate structures and transactions.

Spend time with your accountant and attorney developing an ownership transition plan. Put it into writing, and discuss it with members of the next generation before, or in the early stages of, their return. Failing to do so can result in assumptions, confusion and conflict about the ownership transition.

A younger generation's return to the family farm or ranch should be a cause for celebration. To make a positive experience more likely, be intentional in your preparation, planning and policies to guide future generations in your family business. ///



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