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## Harvesting family harmony

Louis S. Shuntich, JD, LL.M.  
Director, Advanced Consulting Group  
Nationwide®

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Over the next 20 years, 70% of U.S. farmland will transfer to the next generation but it is estimated that less than a third of those farms will stay as family farms.<sup>1</sup> When asked why there is such a poor success rate at keeping farms in the family, an elder rancher put it plainly that, “Our technical and business skills are fine; it’s our people skills that need help!”<sup>2</sup> In other words, ranchers and farmers are telling us that their weakest link in succession planning is not technology or information, but rather human relationship management.

### **Essential Communication**

When it comes to succession planning, there is a demonstrated close relationship between how well a family communicates and its probability of success. In that regard, healthy family businesses share decision making and have excellent communication skills. The problem, however, is that many family members are reluctant to begin the process of open communication because they fear change or associate communication with conflict or as a threat to their control of the enterprise. Yet it is critical to discover the expectations of all family members, as each individual needs to think about and share with the others what they would like to see happen regarding the future ownership and management of the business.

### **Mission Statement/Family Meetings**

A necessary outgrowth of this communication is the creation of a mission statement that outlines the basic purpose of the enterprise and summarizes what is done, who it is done for, and how the organization conducts itself.<sup>3</sup> In that respect, while this kind of abstract thinking is difficult, an effective way of accomplishing it is to have family meetings that bring the stakeholders together to discuss issues that are important to the family and the business. To be effective, however, such meetings must be well structured. This means that each meeting should have an agenda that is distributed in advance so that each participant has a chance to prepare for the meeting. Further, the attendees should come prepared and willing to listen while sharing information openly with each other.

### **Overlapping/Conflicting Systems**

Here it should be noted, there are three overlapping and sometimes conflicting systems at work in a family business. They are the management system, the ownership system and the family system. The management system is focused on the daily activities of the business, such as production and marketing, while the ownership system is concerned with returns to current and future investors. The family system, on the other hand, is concerned with maintaining family harmony in terms of unity and personal relationships that involve feelings and generational authority.<sup>4</sup> In this context, one of the great risks to a successful succession plan is having business conversations framed as parent child exchanges that confuse the family system with the management system. This means that if the father always presents himself as the “boss” in the family business, the adult child will likely feel like the “hired help” with no say in decision making. This will cause them to lose their motivation to stay in the family operation and may lead to them going elsewhere. This may come from the father not being willing to relinquish control. That is a natural consequence of putting one’s blood, sweat and tears into the operation with the result that the father’s personal identity and self-worth are inextricably tied to controlling the business operation. The solution in such cases may be for the parent to let go of responsibility at a rate that they can live with, and the child can handle, considering the child’s skill and experience. In any case, sons who perceive themselves as having significant influence in decision making are twice as likely to stay with the farm as sons who

do not.<sup>5</sup> In this respect, the father should understand that there is a window of opportunity for the heir apparent to take over, otherwise they must leave or risk crippling their chance at other opportunities in life.

### **Don't gossip**

Another contributor to family harmony are the positive feelings family members have towards each other. These create a basis for agreement on the succession plan. This means that they should avoid gossiping about each other. That can lead to misunderstandings and conflict. In other words, "If you can't tell that person face-to-face what you are thinking, then don't tell anyone else".<sup>6</sup> Further, the avoidance of gossip helps with family trust that leads to mutual understandings about the appropriate behavior of family members in developing a succession plan.

### **Avoid grudges**

If the unfortunate does happen and family members become angry with one another over an issue, they should not carry grudges. Rather, they should get it out in the open and discuss it in a positive manner, respectfully giving the reasons for their views, and then move on. This will enable them to avoid turning a disagreement into a family fight that will end their relationship and any hopes for an amicable succession plan. This brings to mind the old adage to pick your fights carefully or, better yet, don't fight.

### **Selecting leaders**

A most significant part of any succession plan is determining who takes leadership in the next generation. The family should consider whether the candidate has strong leadership skills. Further, does he or she have the requisite assertive nature or are they reserved to the point of being ineffective? Keep in mind that leadership requires boldness and decisiveness.) Lastly, do they have personal issues that will impede their ability to lead the family business to success by making decisions that will be in the best interest of the business?

This leaves the question of how the parent develops an understanding of whether any particular candidate has the necessary qualities. The answer is to make that determination by testing them with farm or ranch responsibilities. Essentially, the parent should give the candidates duties to show if they can handle them and who is best at it before making the decision. The key is that the parent does not leave it to the candidates to decide among themselves who is best suited to lead, since they will fight and destroy the family. Rather, the parent must look at the situation and make the determination as to who will lead. The candidates may not like the result, but they are used to taking orders from the parent. And while they may not all like the result, they are more quickly willing to forgive the parent for a decision they don't like than each other.

### **Fair vs equal**

Next, what is to be done for those who do not get a leadership position on the farm or ranch? This is one of the most difficult issues parents face in terms of whether to treat them fairly or equally. That is because equal treatment eliminates the fear that one child is favored over any other and is a safe position to take, but that may not be possible if the business is to be handed down as a viable entity. Consequently, a fair arrangement may not necessarily be equal. In any case, factors to be considered include:<sup>7</sup>

- the value of family nonbusiness assets;
- the importance of passing down the business completely intact
- what has already been given to family members;
- what various family members have already contributed to the business; and
- what opportunities various family members have already given up for the business.

It should be noted that, the objective of passing on the business entity completely intact means that the inheritance going to farm children should come from assets that are not central to the farm or ranch operation. This is complicated by the fact that, farm participating children will want to see capital re-invested in the operation, while non-participating children will want to see cash. A common way of satisfying the demands of the off-farm children is through the purchase of life insurance. In any case, in pursuit of fairness, it is not usually a good idea to give the off-farm children a passive interest in the farming operation. The active children will need freedom of operation to succeed. Further, like any closely held business, a farm or ranch only pays income to those actively involved in the operation. This means that, unlike publicly held companies, they do not pay dividends to passive owners. Worse yet, passive owners would still be involved in issues of tax reporting, financial statements and banking issues for which they receive nothing in return, which is a prescription for family resentment and animosity.

Another possible point of contention with the non-participating children is their emotional attachment to the family home. The way to deal with that problem is to have regular and fun family functions at the home that everyone looks forward to. The goal of this being that everyone involved would feel appreciated and not taken for granted.

## Conclusion

Farmers and ranchers spend their lives nurturing crops and animals while maintaining their properties. Yet, they fail to realize the importance of nurturing and maintaining family harmony for purposes of succession planning. Consequently, to be effective, an essential part of the products and services we provide in connection with succession planning must include instruction and coaching on how to build and maintain family harmony as a part of the succession planning process. The following is a short checklist of steps that should be followed by clients to help them through the planning process:

- Schedule a family meeting
- Define goals and objectives
- Identify possible successors
- Set a timeline for succession
- Get buy-in from family members
- Arrange a meeting with professional advisors including an attorney, CPA, valuation expert, financial planner and life insurance advisor



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<sup>1</sup> 2012 Census of Agriculture, Preliminary Report Highlights,

<sup>2</sup> Journal of Extension, Robert J. Fetsch, Extension Specialist, Human Development & Family Studies, Colorado State University Cooperative Extension, Fort Collins, Colorado, [www.joe.org](http://www.joe.org)

<sup>3</sup> Successful Family Business Transitions, Rodney Jones, Prepared for the 2005 Agricultural Lenders Conference, Manhattan, KS, September 2005

<sup>4</sup> Supra 2.

<sup>5</sup> Some Do's and Don'ts for Successful, Farm and Ranch Family Estate Trans, Extension Journal, Inc. ISSN 1077-5315, <http://www.joe.org/joe/1999june/iw2.php>

<sup>6</sup> "Midwest Producer", Seven most common mistakes that lead to family farming failures, February 8, 2012, Ron Hanson, professor of Agribusiness, University of Nebraska-Lincoln

<sup>7</sup> Supra 2.