

WHEN FAMILY BUSINESS TRANSITION MAKES NO SENSE

Editor's note: Dr. David Kohl, this article's author, is one of the pioneers of working with and educating farm families on succession issues in the southeast and nationwide. The article below was originally published in Virginia Tech's *Horizons* magazine.

Some time ago, while addressing a group on modernization and expansion of the farm business, I was asked, "How successful have you been at steering students away from unprogressive operations?" My initial response was that I had not been very successful, but further thought shed a different light.

Planning the future of the family business is not simply a one-time event. The world is too complex and the family's goals and philosophies change over the business and personal life cycle. When a young person or partner is considering entering a business, the following are some key considerations. If your response to many of these points is "no," there is a higher probability of possible problems out of the gate and down the road.

Specific Responsibility and Accountability

One of the first signs of transition challenges is when the partners or older generation fail to define roles and responsibilities in the business. Often the young person is lured into the business and becomes a "Jack of all trades." However, they stay in that employment development path forever. A general rule is that the new partner or younger generation should be making some management decisions within a six-year period.

Lack of Outside Experience

I frequently have the opportunity to observe a young person just out of high school who loves agriculture and the area, then goes away to school, becomes disenchanted and quickly returns to the farm and family nest. Usually within two or three years, this person gets married. The business is generally not sufficient size in cash flow and the daughter or son-

in-law becomes upset. The results are predictable. The younger generation usually leaves the farm or gets divorced, and family blow-up ensues. Solution: get experience away from the business for 3 to 5 years.

Size and Efficiency Counts

Before a partner returns to a business, determine the additional or incremental earnings required for entry. If it is insufficient, the spouse must be willing to make up the difference in non-farm earnings to maintain a standard of living. Here are some interesting perspectives. If a young person desires a family withdrawal of \$40,000 annually, including benefits, the following productive units may be required: For a dairy with an average net income of \$500 per cow, the increase would be 80 cows. Deviations in net income per cow increases the range to 200 cows for inefficient operations to as low as 50 additional cow units for highly efficient dairymen. Shifting to crops if the net income per acre was \$100, the additional productive acres would be 400. Lower it to \$50 per acre, and then an additional 800 acres would be required.

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In a cow-calf operation, if the cow unit nets \$125 per herd, a full-time partner without additional off-farm earnings would require another 300 to 350 cows. These are just a few of the scenarios that illustrate how the dollars and cents relate back to production numbers. You do the math on your operation.

Grandma's and Grandpa's Estate Plans

Often in the agricultural community with tight knit extended families, grandparents of the Great Depression generation are very tight-lipped about provisions in their estate plans. To compound this problem, you perceive that Uncle Jim and Aunt Betty who have nothing to do with the farm will share in the estate. Failure to have open and clear discussions of family business estates is a sign of potential problems. The old saying is, "Either pay now or pay later!" To carry on the family legacy, open communication is the key.

Decisions Made on the Run

Are the partners too busy with the everyday \$100 decisions and overlook the \$10,000 a day aspects such as transition planning? Is your spouse, who is not immediate family, not invited to family discussions? If this sounds like your family, you're not alone. The above scenario gets caught in "episodic" transition planning, i.e. a major event such as death of a key partner, leads to an emotional and traumatic fix to a neglected business practice. This usually results in the loss of money, family harmony, and time. "Life cycle" or disciplined planning is critical in any family business. Periodic time-outs or short sabbaticals from the daily grind are essential to maintain continuity and energy in the business.

Guilt Trip

You go away to college. Mom and Dad call to tell you the farm is going down fast. They can't get away for vacation or time off. Your best cow is sick. This scenario has played itself out numerous times in my teaching career. My best advice is to stay in school. If Mom and Dad are good managers, they will work the problems out.

21st Century Business

Is the business and location you are returning to an opportunity to establish productive roots for an extended period of time? Does it have the soil, water, and markets that make it viable? Are you near a locale that has the infrastructure, schools, hospitals, and shopping areas that make it appealing to the early 21st Century family? The old rule is that young people like to be located within a 45-minute drive of the mall. A newer rule may depend more on availability of high speed internet in the area where you want to live and farm.

