



Enterprising Rural Families™

An Online Newsletter March, 2006 Volume II, Issue 3

This newsletter is an instrument of the Enterprising Rural Families: Making It Work program of the University of Wyoming Cooperative Extension Service. For further information concerning the Enterprising Rural Families program or on-line course contact information@eRuralFamilies.org or go to <http://eRuralFamilies.org/>.

TIP OF THE MONTH

FAMILY SYSTEM

Motive: harmony

Principle: compassion & caring

Rewards: given because of membership or need

Promotions: based on longevity, is inflexible, born into position

Training: implicit, not standardized

Separations: usually messy, no clear guidelines

BUSINESS SYSTEM

Motive: profit

Principle: efficiency & objectivity

Rewards: given for performance

Promotions: based on skill & seniority, hard work can result in new position

Training: explicit, necessary to get good job, standardized

Separations: less painful, clear guidelines, common process

“Who Gets the Legacy?”

Succession Issues for Family Business

Ronald J. Hanson, Professor and Neal E. Harlan, Distinguished Professor of Agribusiness
University of Nebraska-Lincoln

(Reprinted with permission of the author from a presentation at the 2005 Wyoming Bankers Association Ag Bankers Conference)

(This is the fourth in a four-part series on family issues related to the family business, including succession planning).

Who will end up owning the business when the parents retire? Or will the parents still retain total ownership after retirement while the adult children keep doing all the work? Which children will have the chance to gain actual ownership? When will this happen? Or will the parents retain ownership until death? What share of the business can they own? Can the in-laws in the family be actual owners of this business?

The Issue of a Fair Selling Price

If the parents decide to sell the business—or part of the business—to any of their children (particularly the adult children in business with them), what is a “fair selling price” for the business? The largest share of the parents’ financial investment for retirement may be tied up in the family operation. Nearly all their assets could be business-related. If the parents decide to sell the business for “top dollar in the market”, could the son or daughter ever afford that high of a selling price? It could mean taking on a substantial amount of debt that they will never be able to repay during their lifetime.



Using ranching as an example, this presents a real problem if the ranch is located near an urban area that has development potential. If the ranch is ever offered for sale, many times a developer will step in and offer a price way beyond what the parents ever dreamed their ranch was worth. How can a son or daughter who wants to ranch ever compete in a price bidding war with that developer or even an investor wanting to buy a ranch in the country for their new summer home on an acreage?

Yet on the other side of this issue, the parents cannot afford to just give their ranch away or sell at the lowest bargain price. Parents can expect to live longer in retirement and will need a secure financial future for personal needs and health care for the many years ahead. Health care alone can be extremely expensive. The parents may also have plans to travel extensively or spend their winters in a warmer climate. This all requires money for their retirement.

Working out a fair selling price for the business or ranch that provides the parents with a secure financial retirement but at a price that the children buying the business can afford as a feasible financial investment is certainly no easy matter. It is very important that the adult children in business with the parents have an opportunity to gain ownership of assets and to build their own equity. That way these children are in a position to borrow the necessary loan funds from a lender to finance the purchase of the business or home ranch. Without an asset base established, the children have little chance of gaining the needed financing.



Continued from page one – “Who Gets the Legacy?”

In Summary...

It is important to have a **strategic plan for ownership succession** in place for the next generation. These four articles highlighted some rather sticky and emotional issues to discuss among the family members, but avoiding these issues could have disastrous consequences later. Parents must have a clear vision for the future of their family business and then be willing to discuss their ideas with their children. **Do all family members involved have this same vision?**

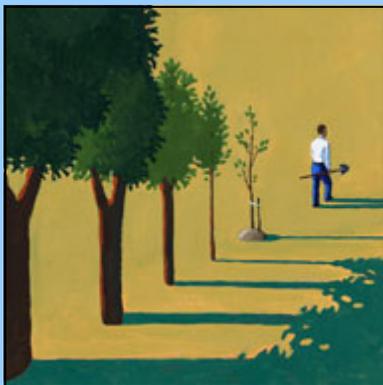
Also, it is important that each family member show that they care about the feelings of other family members as these sensitive and emotional issues are being discussed and resolved. Family relationships are important. Keep these issues in perspective. **Businesses can be replaced but families cannot.** The real tragedy is that many times when working through these issues, family members become defensive or hide their feelings when they feel that they have not been treated fairly. Sometimes threats are made or hurtful remarks are shared with each other. The scars from this damage can last for many years.

Being a family and staying together as a family even during difficult times or stressful situations needs to be the guiding light to help the family work through these emotional and serious discussions which relate to the business ownership succession of the family business and the actual transfer of management control of the operation to the next generation of family business owners.

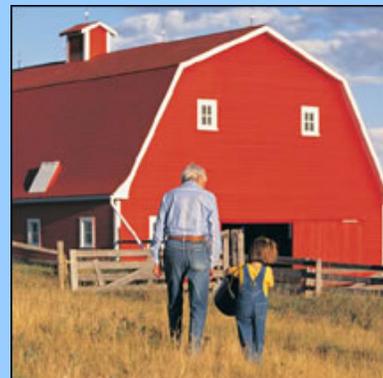


(The importance of strategic management and succession planning is covered in greater detail in the **Enterprising Rural Families: Making It Work™** on-line course.)

Edited by: Randy R. Weigel, Professor and UW Extension Human Development Specialist.



Keep in mind an old Chinese proverb that says: If you want to be successful for one year, grow grain. If you want to be successful for 10 years, grow trees and if you want to be successful for 100 years, grow people. A healthy succession plan is really an investment in people. It's the way for a dream, the ranch, to carry on for generations.



Enterprising Rural Families™

March, 2006 Volume II, Issue 3