



Enterprising Rural FamiliesTM

An Online Newsletter January, 2006 Volume II, Issue 1

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

ACTION LEARNING: a deliberately organized method for developing attitudes, knowledge, skills developed by Revan (1987).

1) **Project/Problem**—a real world problem selected in consultation with the family business.

2) **Action Learning Teams**—Both an individual and interactive process—advisory councils, boards of directors, family mgmt. team, business mgmt. organization, professional business support groups.

3) **Learning cycle**—steps: act, observe & reflect, generalize, plan.

4) **Reflection Tools**—learning logs, journals, PDAs, tape recorders, talking with friends.

5) **Learning Equation**—learning occurs most effectively when questions flowing from experiences combine with attained knowledge from various sources.

6) **Mentor**—Learning in the real world often requires professional as well as emotional support.

“What If Mom Outlives Dad”

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 second in a four-part series on family issues related to the family business, including succession planning. This article points out the need to have a contingency plan for succession if unexpected events occur in the family business).

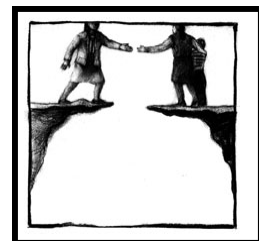
What if Dad dies unexpectedly or before his retirement from the family business and Mom inherits the entire business? Mom now has total control over the business operation. Does Mom operate and manage the operation in the exact same manner as before Dad's death? Or, would Mom start making some of the changes she wanted to make but Dad would never agree to. Using a ranch operation as an example, there may have been some old buildings on the ranchstead that were in total disrepair and no longer being used. The buildings were nothing but an “eye sore” and Mom always wanted the buildings taken down and burned. But those buildings were part of the original ranchstead that Dad's great grandfather built. Consequently Dad would never listen to a word about those building being taken down. But, it is a sure bet that if something happens to Dad and Mom takes over, those buildings will soon disappear from the ranchstead.

Much depends on how actively Mom was involved in the business operation before Dad's death. If Mom was in charge of keeping the record accounts and paying the expenses, she will probably be very comfortable in continuing her management role. This is especially true if Mom was involved in the production end of the operation; or involved in working with lenders in the financial management aspect of the business; or supervising employees.

If Mom was employed full time away from the family business and not involved in the day-to-day activities, then the situation could be totally different. In the ranching analogy, if there was a ranching son or ranching daughter (or possibly a ranching son-in-law) already on the ranch, would Mom now be willing to turn full control of the operation over to them even though Mom now owns the largest share of the ranch's assets? Could the ranching son or daughter have freedom to operate the ranch? Could they make the decisions and initiate changes with little or no supervision by her? This might depend on how well Mom trusted their judgment and maturity to make the decisions.

Most importantly, a lot now depends on how well the son or daughter is able to communicate effectively with Mom and keep her informed on what is being done. The key point may be: Does the son or daughter have Mom's complete trust and confidence to take over the management of the family business now that Dad has passed on?

If none of the children return to the family business before Dad's death or if none of the children have an interest in taking over the business now that Dad has died, Mom finds herself all



Continued from page one – “*What if Mom Outlives Dad*”

alone. Again, in the ranching example, if Mom is not able to take over the work requirements of the ranch for whatever reason (physically not able, already has a job or her own career, never wanted to move to the ranch to begin with, etc.), would Mom just rent out the entire ranch to a neighbor or relative but continue living on the ranchstead? Or would Mom, in this situation, soon sell the ranch and move into town? Possibly Mom might even move away to another state to be closer to siblings or grandchildren. **These are all decisions that Mom must contend with as she deals with the responsibility of taking over the business upon Dad's death.**

Mom's outliving Dad can get quite interesting for the entire family if **Mom remarries** a short time after Dad's death. What if Mom would marry a ranch neighbor just down the road who lost his wife a short time ago as well? Might he just take over ranching this land for Mom—his new wife? Now what happens to the ranching son (or son-in-law) or ranching daughter if Mom would marry another rancher who is actively ranching himself? Would they still have the same chance to take over the family ranch even though there is now a step-Dad to deal with? And what if this new step-Dad takes over for Mom and starts making all the management decisions for Mom? Worse yet, what if Mom starts listening to or does what he wants rather than her own children? But, if Mom remarries another man that is not involved in ranching and has no interest in the ranch that Mom now has, then things probably stand a good chance of working out for the ranching son or ranching daughter.

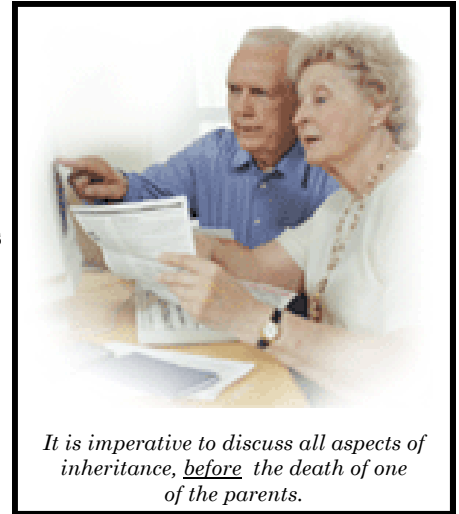
If Mom owned the family business to begin with, i.e. this is the ranch that she inherited from her parents and the ranch deed was always in Mom's name and Dad basically ranched her land, then Dad's death would not change the operation a great deal. In this situation, very little changes with Dad's death since Mom owned the land and was probably in charge of the ranching operation all along. Even if Mom remarries, she will still remain in control since the ownership of the ranch was always in her name.

The unexpected death of either parent can raise a lot of unanswered questions and concerns among the children (both those in the business and those not). It may even jeopardize the successful transfer and succession of ownership for the family business to the next generation. **The real issue here is whether Mom and Dad have discussed any of this with each other.** Did they ever share their personal wishes with the other spouse in case of their unexpected death? Or was it just assumed that everything would remain the same or things would eventually be taken care of in the exact manner that the deceased parent would have always wanted.

Has anything ever been put in writing? Has the parents' will and estate plan been updated and amended to satisfy their wishes? Has a business agreement been put in place with the children? Has the son or daughter involved in the family business been given an option for the “first right of purchase?” Without discussing these very issues and then putting it in writing (legal documents with a lawyer) in case of an unexpected parent's death (especially if one of the parents dies very early or long before retirement), the succession of family ownership to the next generation could be jeopardized.

(“*Who are the ‘Real Family Members’ in the Family Business*” is the focus of the next issue in this series on **Succession Issues for Family Businesses.**)

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



It is imperative to discuss all aspects of inheritance, before the death of one of the parents.



Enterprising Rural Families™

January, 2006 Volume II, Issue 1