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Money and Fairness in the Family Business

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Nothing can elicit more heated discussions or hard feelings than the subject of money, within a multi-generation rural family business. Here's a classic example:

Son #1 - Bob, who lives and works on a farm with his wife Alice, feels Dad is underpaying him. Bob doesn't like scrimping and scraping and worries Alice sees him as a poor provider, but accepts the situation because he believes, just as his parents taught him to, that a business should always be expanding. Alice thinks Dad is using money to control them and feels it's important to strike a balance between building for the future and living a life today. Dad thinks the things his daughter-in-law wants—a double-wide trailer, holidays off and music lessons for the kids—are extravagances. He's feels that Bob and Alice don't appreciate how hard he's worked to build the farm and is worried they will mismanage and eventually lose it.

Son #2 - Eric, who lives in town and divides his time between the farm and his agricultural consulting business, is bitter. He sees Bob and Alice living off the farm. They have free housing, insurance and utili-

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Tip of the Month

Making Silence Work for You in Negotiations

We often find ourselves in conversations which are best described as people talking on top of each other. Many people are simply uncomfortable with silence. Others are so busy wanting to present their counterpoint that they tend to talk on top of other people.

Guham Subramamian, offered these benefits for utilizing silence in negotiations in his recent coaching tips section in the Harvard Law School Program of Negotiation newsletter.

1. Silence helps you absorb what you are hearing.
When the stakes are emotional listening takes effort. While our counterpart is talking, the tendency we have is to prepare what to reply. Even though it seems like a great strategy to deliver the perfect "zinger" on the heels of someone's comment, doing so indicates that you were too busy thinking to be listening. A few minutes of silence is a great strategy, and it isn't an instinctive skill in negotiation. A few seconds of silence, however, allows you to deploy active-listening skills: paraphrasing, inquiring, and acknowledgement. Great negotiators aren't necessarily great talkers, but they are always great listeners.

2. Silence can allow you to defuse anchors.
Silence can be a useful tool to defuse anchors clearly and forcefully in negotiation. When your counterpart names an outrageous figure, your stunned silence will be far more effective in defusing the anchor than will volumes of rhetoric. Defusing anchors through silence is particularly effective in over-the-phone negotiation. It sets the stage for the other party to wonder for a moment.

3. Silence can allow you to minimize or avoid psychological biases.
A long stream of research in behavioral economics and social psychology indicates that negotiators are susceptible to cognitive biases, including framing effects, the contrast principle and loss aversion. Research further shows that in addition to being aware of these phenomena, taking time to think during negotiation allows you to mitigate or avoid these biases. Silence buys you time to think.

4. Silence can allow you to "go to the balcony".
William Ury in his book, *Getting past No,* urged negotiators to "go to the balcony" in difficult situations. Going to the balcony offers you the chance to look at how a third party would view this situation. According to Ury, silence gives you the few seconds that are essential to take a distanced view of the things at hand.

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ties, a free pick-up and gas, and free meat, milk and vegetables. He has to pay his own way. Daughter Alison has just graduated with a master's degree in business administration. Given the current job market for MBAs, she wants to open up her own interior design business, something she studied in college and sees a good demand for.

Mom is caught in the middle. Everybody dumps their woes on her lap. She can see everybody's point of view, but no easy solution. She feels paralyzed and emotionally drained. All she wants is her loved ones to get along and be happy.

Harsh words and bitter feelings over money and fairness can be prevented. Participants in a rural family business need to understand what money paid to children is really for, establish a policy on compensation, explain it to everybody, and stick to it.

Rural family business owners should do the following four things to avoid money issues:

1. First rural families in business need to understand and separate the roles and relationships they have. Family members in business together wear many hats. Often they are staff, co-owners, heirs, and loved ones. The trick is to separate family from business issues and considerations.
   When the family business is in the midst of transition, like the family in the example above, the succeeding generations have three distinct relationships to the parents and the business. Successors are: (1) employees or co-workers, (2) shareholders and owners-to- be, and (3) loved ones.

2. Parents need to be clear about what is pay and what is a gift, a loan, or a bonus. As employees, children working in the family business are entitled to receive a wage. That wage should be fair and attractive.
   As with any other employee, benefits such as medical, dental, life and disability insurance add to a job's attractiveness. Perks are optional and need to be clearly identified as such. Their value also needs to be accounted for.
   When it comes to performance and profit-sharing incentives, criteria and ground rules need to be discussed and agreed upon, in advance, by all those concerned. As co-owners or shareholders, children working in the family business may receive dividends. So may children not working in the business. Dividends should be clearly identified as such.
   Those in line to take over the business may also benefit from "share value appreciation" as the value of the family business rises due to inflation or expansion. Depending on how shares in the business are distributed, non-business siblings may also benefit. (Remember, share value appreciation is often on paper only.)

3. Thirdly, parents may elect to give their children money simply because they are their children and they may want to help out. In the example above, Dad may choose to give or loan Alison $50,000 to start her own business. Likewise, if Eric falls on hard times because business is slow, Dad may give him some money to tide him over.

4. Money given for emotional reasons or out of parental concern should be clearly identified as such and not confused with money given for other reasons.

> *The three pillars of successful succession are:*
>
> *I. A strategic, financial, and management-ownership transfer plan for the business,*
>
> *II. An education and succession training plan for children, and*
>
> *III. A retirement savings plan for the parents.*

Gage and Sivokhina write, "We all try to be fair but fairness is an elusive concept. Ask yourself how you visualize fairness."

Some of the possible principles you might be following when making your own decisions include:

The Utilitarian Principle measures the correctness of an action by looking at the results or consequences. According to this principle, as long as the action results in the greatest good for the greatest number of people, for example creating the greatest amount of wealth for the family business, then any decisions that lead to that end would be considered fair.

The Principle of Justice involves the fair treatment of each person, which according philosopher John Rawls, should include not only extensive basic liberties to all, but also equal opportunities.

The Principle of Caring is sometimes referred to as the feminist or care perspective because it emphasizes caring as opposed to justice. It maintains that the family business benefits most by focusing on the people as opposed to economic profit or other business metrics.

The Golden Rule—"Do unto others as you would have them do unto you"—is simple and appeals to many. It is distorted by some to mean "I will treat you how I was treated," which can feel perfectly reasonable and fair to the person in control but not so fair to the person on the receiving end.

Just like the feeling of fairness in a given situation, the principles people use to make decisions often operate at an unconscious level. It can be helpful to spell out the principles of fairness and discuss are how they will be used within the family business, particularly in determining family member compensation. A conversation about these principles can lead to a deeper understanding of how family members feel about fairness and when particular conventions should be followed.

Discussions of fairness are much easier to have when people realize there are not rights and wrongs when it comes to feelings, including feelings of fairness. The goal of talking is a greater mutual understanding of what is fair and when fair is fair. Such an understanding can help avoid the bitter feelings over money and fairness and lead to greater harmony in the family and in the business.

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