

# ENTERPRISING RURAL FAMILIES



An Online Newsletter

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## Deciding What to Pay Children

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Your son has just arrived home, fresh from the University, to begin work on the farm. How much should you pay him?

He's due to inherit the farm, so you don't feel he would be justified in expecting an executive salary. Besides, you're trying to put as much money aside so you can be financially independent when you retire. On the other hand, you realize you have to offer him an attractive compensation package, otherwise he might be tempted, as his siblings were, to pursue a secure, well-paying career in town. You also don't want to fan the fires of jealousy.



Your best bet is to base your son's -- or daughter's -- salary on "the going rate."

Determining what the going rate is may require a little research. If your son does pretty much the same job all your neighbors' sons or hired hands do, you can just ask them how much they pay and calculate the average to determine what the wage should be. You may also be

wise to sit down with your son and list all the responsibilities he has and calculate what it would cost to hire someone else to complete those duties.

Once you've done your research and determined the "market value" of the work your son does, you need to decide whether you want to pay at, above, or below the market average.

Some farmers maintain that paying a successor-elect too much does a disservice to both the child and the farm. Above average pay raises a child's expectations to unrealistic heights. High income expectations can burden the business and disappoint the child later on, when he takes over the farm. Over-paying a child may discourage him from learning to manage his money carefully.

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

Other managers argue that attractive compensation rates are necessary to compensate for the unpredictability and long hours that farming entails.

Whatever compensation policy you decide on, it should be rational, defensible and applied consistently. If another son or daughter comes to work on the farm, his or her salary must be based on objective criteria as well.

After you've decided what your compensation policy will be, you must also set a policy regarding perks, such as free housing and personal loans. You also need to decide what your policy is regarding raises, performance incentives, and profit- sharing.



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It is vital that you differentiate between wages and other kinds of compensation.

Throughout the entire process, it is vitally important that communication be open, candid, and include all family members. The child coming to work on the farm has a right to know how much money he or she will have to live on. So does his or her spouse, if there is one. Non-farm children should be kept informed about what criteria their sibling's salary is being based on. Doing so will help alleviate suspicions or any misgivings they may harbor. The manager's spouse also has a right to be included in the discussion.

The benefit of a clear and objective compensation policy is that it prevents misunderstandings and hurt feelings, is difficult to manipulate, stands the test of time, and helps to ensure that a farm prospers and endures for future generations.

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(Compensation in family businesses are covered in greater detail in the **Enterprising Rural Families: Making It Work™** on-line course.)

\*Originally authored by Lorne Owen P.Ag., Ph.D., Judy Carter M.A.



## The Deadly Dozen Compensation Conflicts

### 1. Role/Relationship Confusion

Parents must differentiate between emotional and business reasons for giving children money. Don't pay the person, pay for the job they do.

### 2. Paying too much or too little

Doing either confuses or frustrates children, both those working on the farm, off the farm, and non-family employees.

### 3. Using pay to achieve tax savings

Inflated salaries, phantom jobs and lavish perks send children a confusing message about their worth, the family goals, and ethics.

### 4. Using pay to ease parents' discomfort

Parents must resist the temptation to use money to ease their guilt, whether for past failings or for current inequities.

### 5. Using pay to assuage children's hurt feelings.

Money should not be used to "cure" children's bitterness, resentment, or the jealousy between siblings.

### 6. Using pay to smooth ups and downs

Wages should not be raised because times are good or where a child needs extra money, any more than they should be lowered when times are bad.

### 7. Using pay to achieve "fairness"

Children's pay should be based on their responsibility and contribution, not what their sister or brother is getting paid.

### 8. Prestige without pay

Giving children fancy titles is no substitute for giving them a real job and paying them a fair wage.

### 9. Using pay to "help" errant children

Bailing-out a child who just can't seem to get it together not only enables him and discourages him from changing his ways, it also insults siblings who manage their affairs responsibly.

### 10. Secrecy

It is not indiscreet, impolite, or wrong to talk about who gets paid what and why. It's essential.

### 11. Mis-using perks

Perks should be earned, not given in lieu of pay, or used to lure children into the business.

### 12. Using pay to influence or control children

Pay should never be used to convey messages or accomplish ulterior motives, such as persuading children to come into the family business or pressuring them to become more frugal.



CC Simon Strandgaard

