

Clarifying Roles in Family Farm Businesses

Individuals who are part of family-owned businesses must navigate their family roles and their business roles. When the family business is a farm, senior operators may struggle to isolate their personal identities, family roles and community roles from their roles as their farms' primary decision-makers.¹ Communication that clarifies family and business roles can minimize farm transition-related conflict.

During farm transition, misunderstandings about family roles and business roles can stoke conflict. That's because the transition process can heighten concerns about treating family members fairly, protecting financial resources and modernizing the farm. Plus, family norms may discourage openly sharing information about the farm's future or finances — important steps in the farm transition process.

Families who don't communicate may be in denial that conflict exists or may be stalling because they lack information or resources needed to address conflict. Refraining to communicate may also be a coping method for people who prefer to avoid family conflict, struggle with the financial implications of farm transfer or fear giving up control.²



Figure 1. Involving family members in farm decision-making can better prepare the next generation to actively contribute to the farm's viability.

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By communicating early and frequently, you can surface and address conflict and increase the chance that the farm business successfully operates and transitions from one generation to the next. Involving family members in farm decision-making can help prepare the next generation to make an active contribution to the viability of the farm, as suggested by Figure 1.

This publication reviews four common challenges that farm families face as they navigate family roles and business roles when planning farm transfer. It also lists action steps that families can take to resolve these challenges and move the farm transfer process forward.

Common conflicts families face during farm transfer

- **Relinquishing vs. Retaining Control** – An internal emotional struggle senior operators face as they step away from the farm livelihood and identity.
- **Being Fair vs. Doing What is Right** – A struggle to balance care of the family with the desire to preserve the farm as a viable business.
- **Profit vs. Affordability** – A tension between the financial needs of senior operators and the heirs' financial capacity to buy out and operate the farm.
- **Explicit vs. Implicit Communication** – The need to openly talk about the farm's future; fighting the urge to make assumptions about the future and not talk about money.
- **Progress vs. Continuity** – The struggle between doing things as they have always been done and trying something new to keep the farm adaptive and profitable.

Source: Adapted from Pitts et al., 2009.

Distinguishing family roles from business roles

A family business can have three types of stakeholders: family members, individuals who own the business and individuals who manage the business.³ Linkages among these stakeholder groups may be illustrated using a three-circle family business system model. One person may be in all three circles, two circles

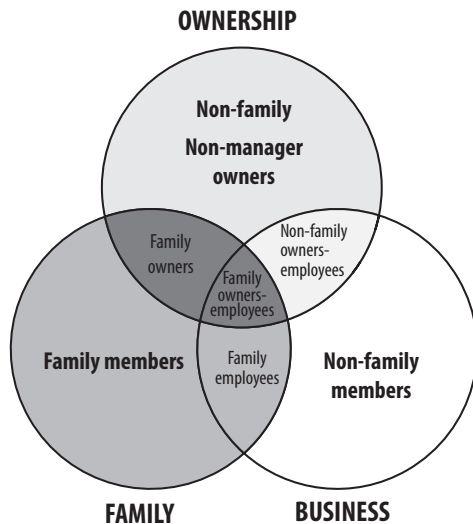


Figure 2. Three-circle model of the family business system (Tagiuri and Davis, 1982)

or only one circle. As Figure 2 shows, not all family members may have business ownership or management roles.

An individual's role within the system affects their expectations from the business: family members are entitled to love and acceptance; owners are entitled to a return on their investment; and employees are entitled to fair compensation for their labor and expertise.

Conflict can arise when family businesses fail to isolate family roles and expectations from business roles and expectations. Clear and open communication among individuals in all three circles (family, business operations and ownership) may reduce conflict. Discussion allows individuals to determine where they belong in the family business system. Additionally, people should understand what is required to change roles within the family business — for example, how to transition from being a family employee to a family owner-employee.

Families are prone to hierarchical structures where only the patriarch or matriarch's voice matters. When it comes to the business, however, all insights should be heard and valued. To facilitate open communication, first cultivate an environment where all family members feel welcome to share ideas and opinions. When communicating, encourage younger generations to engage actively and provide input. The experience they gain from contributing to the business prepares them for taking more management responsibilities and owning the farm business in the future.

Individuals should be conscious of the following four challenges family-owned businesses face as they navigate family roles and business roles. These challenges often impede open communication. They also can adversely affect decision-making and lead to family conflict.

Separating roles is hard for senior operators preparing for farm transfer

Senior operators approaching retirement may simultaneously deal with not knowing who will run their farms next, what they should do after farming or how their place in the family or the broader community will change if they stop farming.

These personal emotions and societal norms are powerful forces. They can inhibit families from starting the farm transfer process as senior operators struggle between retaining or relinquishing control of their farms, which provide a major part of their identity.

To help senior operators feel comfortable with farm transition, they can control how to gradually transfer responsibilities. Families can provide support by viewing transition as a success to be celebrated.

Challenge 1: Inability to separate family roles from business roles

Strive to keep the family's relationships independent from the farm business' relationships. Your farm might struggle in this area if family members are expected to work without compensation or earn less than what they could elsewhere.

Other signs of challenges include guaranteeing that family members will have jobs in the business if they can't find work elsewhere or valuing blood relatives' views more than perspectives of non-blood relatives, owners or employees.

Steps to resolve this challenge

- The senior operator lists business goals and family goals. The two lists may have some overlap, but each should have independent goals and related milestones.
- If the primary operator wants to transition the farm, then evaluate the farm for a transfer plan. The plan should describe how to delegate managerial responsibilities slowly to the next generation. It should also allow business assets to transfer without placing a family member or the business at risk of financial ruin.
- Separate business checking accounts and personal expenses for all family members.
- Develop job descriptions for everyone who works on the farm. The descriptions set performance expectations and add clarity to family business work arrangements.
- Value and compensate family members fairly for the labor they provide on the farm. Recognize when family members take on more or fewer responsibilities, and revise wages accordingly.

Challenge 2: Lack of communication about how family roles and business roles overlap

Have you shared the contents of your will or trust with your family? Do you make assumptions about what a family member should know about the business based on that person's family role? Have you ever been unclear about your role in the family business because no one talks about it? Do you assume that you will inherit a certain number of acres or sum of money when a family business owner dies?

At the heart of these questions is a lack of communication that has led to confusion about how family roles and business roles overlap. If family businesses don't clear up the confusion by following good communication practices, then they risk conflict arising and affecting family and business dynamics.

Steps to resolve this challenge

- Complete or update a three-circle model of your family business system to reflect current roles in your farm business.
- Discuss the farm business' future in specific terms at a family council meeting. Address who will or will not receive income or land upon a senior operator's death, and describe under what circumstances a will or trust may be revised.
- Family members who own the business or work as farm employees should write down the business roles they want in the future and outline what they can contribute to the business. The senior operator(s) should reflect on these statements and then hold a family business meeting to discuss differences in their perceptions and the desires of others. This can lead to adjusting an individual's roles within the three-circle model of the family's business.

Challenge 3: Imposing family roles in business matters

The decision-making hierarchy for a farm business should reflect owners' and employees' skills and expertise. When most of a farm's owners are also family members, individuals in that operation may revert to family-based age and gender hierarchies that can damage the business.

These are a few examples of family roles taking precedent in business matters: The oldest living generation makes all the decisions. Parents do not actively listen to their children's business concerns or ideas. Children do not voice their ideas or concerns because they fear being perceived as ungrateful, misinformed or too radical. Older siblings' views and goals are prioritized over younger siblings'.

Be proactive with professional help

Business-related disagreements can cause conflict or communication breakdowns among family business stakeholders. Family-related conflict can also inhibit good business relationships and communication within family farm businesses.

This guide assumes all members in the family business system are willing to talk to one another. If your personal situation is different, then consider working with a trained professional, such as a family business consultant or conflict-resolution specialist, who can help address root causes of family conflict.

Steps to resolve this challenge

- Hire an external consultant to facilitate a series of family business meetings. A facilitator should be neutral and coach the family on how to practice active listening.
- Set the expectation that everyone should provide input and ask questions during a family business meeting.

Challenge 4: Failure to set milestones for role changes

A farm should have a plan for how to evolve its leadership and management structure over time. The business is more likely to succeed through multiple generations if decision-making authority is not centralized within a single person or group of people from the same generation.

If the primary decision maker(s) have not outlined how and when to transition responsibilities, then family and nonfamily business owners or managers may not know whether they have a future with the farm business or how to help grow the business. Unless you practice good communication, family business stakeholders may be uncertain about how or why some business transition decisions are made.

Steps to resolve this challenge

- Review current job descriptions and assigned responsibilities every year to determine when someone has earned a different role within the business.
- Review the five steps to transfer farm management responsibilities and assess how far your farm has moved through the five-phase process. If you have not already, then form a plan to begin slowly transferring responsibilities. Providing time for your successor(s) to learn increases the farm's chance for long-term success.
- Schedule family business meetings that include non-family owners and employees.

Proactive communication can surface and resolve conflicts

Proactive communication allows families to move from inaction to finding and implementing innovative solutions. Building a yearly schedule of family business meetings and engaging external advisers and experts can help a family begin to talk more openly about the farm's future.

Farm families have a variety of coping mechanisms to address conflict during farm transfer. The list below describes several mechanisms farm operators use.²

Coping mechanisms families use to address conflict during farm transfer planning

- Stalling — postponing the farm transfer process to avoid conflict. Delaying key decision-making until a senior operator dies.
- Denial — ignoring conflicts, and refusing to engage in conversations about farm transfer.
- Segmentation — prioritizing some aspects of farm transfer (e.g., modernization, asset transfer) over others. Setting boundaries for what topics to discuss or who is allowed to discuss them.
- Integration — surfacing conflicts, and seeking more information or expertise to develop strategies that address conflicts.
- Reaffirmation — openly acknowledging conflicts that exist, and committing to find a solution.

Here's an example of how to acknowledge conflict. Assume a family transferring the farm will not equally divide assets because the family wants to recognize some family members' sweat equity. It does, however, desire to financially support all of the family's children. The farm must change significantly to stay in the family for another 100 years. Family members are willing to ask, "What must we do?"

Additional tools for resolving conflicts

Use the following three tools to minimize or correct conflicts that arise in family farm businesses.

Job descriptions

Develop farm business job descriptions using the [University of Vermont Extension Farm Labor Dashboard's Job Description Generator Tool](https://www.uvm.edu/aglabor/dashboard/job-description-generator) (<https://www.uvm.edu/aglabor/dashboard/job-description-generator>).

Communication facilitators

Good communication can prevent conflict. Families should be proactive and seek professional expertise from a family business adviser or trained facilitator if issues arise that the family is unable to resolve or accept or if reoccurring issues prevent the family from moving forward with a decision. An experienced outsider can help the family surface and address root causes of conflict.

Mediation

If a family is unable to address conflict through communication, then the Missouri Department of Agriculture offers mediation services for agricultural producers. The [Missouri Agricultural Mediation Program](https://agriculture.mo.gov/grains/pdf/mediationbrochure.pdf) (<https://agriculture.mo.gov/grains/pdf/mediationbrochure.pdf>) assists farmers and ranchers, their creditors and others directly affected in resolving disputes. This service helps in reducing participants' costs associated with administrative appeals and litigation.

Mediation services for agriculture-related issues are available to all farmers and ranchers. Situations between tenants and landlords, borrowers and lenders and one neighbor and another neighbor may be settled using mediation as a form of dispute resolution. All USDA program participants who have misunderstandings with USDA agencies may utilize mediation to help solve disputes.

Sources

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