

**Planning for the future:
The case of XYZ Farms**

by

Kayla Lichty

B.S., Iowa State University, 2012

A THESIS

Submitted in partial fulfillment of the requirements

for the degree

MASTER OF AGRIBUSINESS

Department of Agricultural Economics

College of Agriculture

KANSAS STATE UNIVERSITY

Manhattan, Kansas

2017

Approved by:

Major Professor
Dr. Gregg Hadley

ABSTRACT

XYZ Farms, a family farming operation located in Northeast Iowa, has been in business since 1924. Currently the operation utilizes 1,300 acres of farm ground to produce corn, soybeans and alfalfa and feeds 3,000 head of hogs and 500 head of cattle annually. The family operation has evolved over the years and has passed ownership down within the family from generation to generation. It has come time that the operation's current owners are looking to retire and peacefully transition the family operation on to the next generation.

A non-conventional case study structure will highlight and assess the history of the family operation and introduce them to current practices and ownership. The purpose of this study is to evaluate and create a feasible transition plan for XYZ Farms, while minimizing the social and economic costs associated with farm business succession. Further analysis will allow the operation to identify and utilize a succession planning framework, which is important for farm families to possess when looking to build and begin the planning process. Quantitative, along with qualitative, analysis are utilized to understand the operations need for succession planning and the feasibility of doing so.

Findings indicate that it is advantageous to work through a sound succession plan including an open line of communication with both current and future owners of the operation. The ability to have upfront conversations and meetings will allow for the discussion of the operation's future between both parties involved. By implementing a

sound and feasible succession plan, XYZ Farms will be able to continue to be a family owned and operated farm for many years to come.

TABLE OF CONTENTS

List of Figures	vi
List of Tables	vii
Acknowledgments	viii
Chapter I: Introduction	1
1.1 Problem Definition	2
1.2 Objectives	3
1.3 Significance of Study	3
1.4 Methods	3
1.5 Thesis Outline.....	4
Chapter II: Literature Review	5
2.1 Why Succession Planning?	5
2.2 Organizations and Institutional Change.....	6
2.3 Communication in Succession Planning	8
2.4 Farm Family Succession	9
2.4.1 Transition Planning: 12 Steps to Keeping the Family Farming	10
2.5 Case Study Methodology	11
Chapter III: Succession Planning Framework and Theory	12
3.1 Institutional Change	12
3.2 Case Study Strategy.....	12
Chapter IV: Succession Planning Framework and Methods	16
4.1 SWOT Analysis.....	16
4.2 Transition Planning: 12 Steps to Keep the Family Farming Tool	16
4.3 Data	17
4.4 Research Bias	18
4.5 Limitations.....	19
Chapter V: XYZ Farms – 12 Step Framework	20
5.1 Step 1 – What Matters Most	21
5.2 Step 2 – Identify Wants, Needs, Hopes, and Fears	22
5.2.1 Wants.....	22

5.2.2 Needs	22
5.2.3 Hopes	22
5.2.4 Fears	22
5.3 Step 3 – Establish Vision/Mission Statements, Objectives, and Goals	23
5.3.1 Vision/Mission Statement	23
5.3.2 Objectives	23
5.3.3 Goals	24
5.4 Step 4 – Human Resource Evaluation and Step 5 – Who is in Charge?	24
5.4.1 Bob Doe, Owner, President, Operator	24
5.4.2 Jane Doe, Owner, Secretary	25
5.4.3 John Doe, Owner, Vice President	25
5.4.4 Jill Doe	26
5.5 Step 6 – Where Do We Stand Financially?	26
5.5.1 Liquidity Indicators	26
5.5.2 Solvency Indicators	27
5.5.3 Profitability Indicators	27
5.5.4 Financial Efficiency Indicators	28
5.5.5 XYZ Farms’ Financial Values	29
5.6 Step 7 – Do We Have What We Need?	31
5.7 Step 8 – SWOT Analysis of Internal/External Factors	31
5.7.1 Strengths	31
5.7.2 Weaknesses	32
5.7.3 Opportunities	34
5.7.4 Threats	35
Chapter VI: Lessons Learned	36
6.1 Transition Planning Perceptions of Current Owners	36
6.2 Transition Planning Perceptions of Future Owners	37
Chapter VII: Conclusion	39
7.1 Recommendations	39
7.1.1 Step 9 – Evaluating Financial Feasibility	39
7.1.2 Step 10 – Developing a Business Plan	40
7.1.3 Step 11– Estate Planning, Retirement Planning and Business Entity Buffet..	40
7.1.4 Step 12 – Putting the Plan into Action	41
7.2 Suggestions for Further Research	41
7.3 Final Reflections	43
Appendix A: XYZ Farm Profit and Loss Statement.....	48
Appendix B: XYZ Farm Balance Sheet.....	49
Appendix C: XYZ Farm Statement of Cash Flow	50

LIST OF FIGURES

Figure 1.1: XYZ Farms Acreage Allocation in 2016.....	1
Figure 3.1: Keeping the Family Farming	20

LIST OF TABLES

Table 2.1: Nine Barriers to Communication between Generations	9
Table 5.1: XYZ Farms Financial Analysis Compared to Iowa Farms	29
Table 5.2: XYZ Farms Allocation of Labor Hours - 2017.....	34

ACKNOWLEDGMENTS

I would like to take the time to thank the MAB staff, faculty and my thesis committee. The experience that I have had would not have been possible without the help and effort put forth by Deborah Kohl and Mary Emerson-Bowen. I would also like to thank Dr. Gregg Hadley for his guidance and encouragement throughout this process as my major professor. Another thank you goes to Dr. Charlotte Schoup Olsen, Dr. Gregg Ibendahl and Dr. Mykel Taylor for dedicating your time to be a part of my committee and offering your insight from each of your respective backgrounds.

Thank you to XYZ Farms for allowing me to dig deeper into the transition planning process and for providing insight and feedback through this whole process. Your input was very valuable and has allowed me to further the work and accomplish my goal to ensure that XYZ Farms remains in business for generations to come.

I would also like to thank my colleagues at Farm Journal Media. Without your understanding and constant encouragement the past couple of years, this would not have been possible.

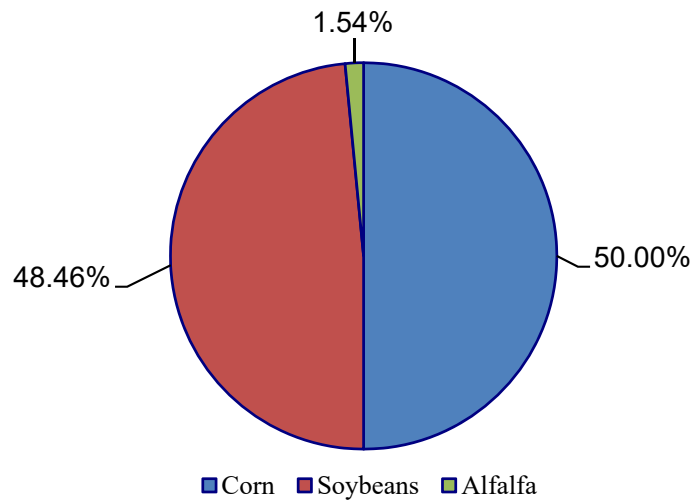
The most important thank you goes to my family, friends and husband for supporting me through the thesis process and my entire time at Kansas State University. The tireless hours of encouragement, traveling and babysitting our four month old little girl truly mean the world to me and without your help this would not have been possible. You have stuck by my side and I cannot thank you enough.

CHAPTER I: INTRODUCTION

Succession Planning. A concept that many family farming operations are coming to hear more about. Often interpreted as the process for identifying and developing new leaders who can replace current leaders when they retire to fill key business and leadership roles in the organization. At XYZ Farms, owners Bob and Jane Doe are looking to transition the operation to its potential new owners, John and Jill Doe, their son and daughter-in-law.

XYZ Farms, a family farming operation located in Northeast Iowa, has been in business since 1924. Current owners, Bob and Jane Doe, have six grown sons, some of which are semi-involved in the operation, John being the youngest of those six. Currently, they utilize 1,300 acres of land to produce 650 acres of corn, 630 acres of soybeans and 20 acres of alfalfa and feeds 3,000 head of hogs and 500 head of cattle annually. Figure 1.1 shows acreage allocations within the family farming operation.

Figure 1.1: XYZ Farms Acreage Allocation in 2016



The operation has evolved over the years, passing ownership down within the family as well as expanding and diversifying the operation. Land and resource conservation are two main components that the operation takes pride in. Minimum and no-till practices have been incorporated into their row-crop production over the years, as well as adding acres into the CRP program and maintaining terraces that are currently in their fields. As Bob and Jane Doe look to retire, an assessment of XYZ Farms needs to be performed to ensure both parties involved in the transition, current and future owners, have a complete understanding of the operation now and in the future.

1.1 Problem Definition

Succession planning and business transition of XYZ Farms has been a core principal of the operation since its establishment in 1924. Keeping the operation within the family holds true to the past, present and future owners. However, the operation's current owners, Bob and Jane Doe, are looking to retire and want to ensure that the operation is successfully and peacefully transferred to the next generation, forcing each party involved to take a closer look at the operation.

The problem faced by the current and future owners is to understand the following: what will be the most appropriate plan for ownership transition given the current state of the operation? This study investigated multiple succession planning platforms and identifies a platform for XYZ Farms to evaluate the steps needed to ensure a successful transition. It will also put forth the work that needs to be done in the coming years for the farm's new owners.

1.2 Objectives

The overall objective for this research is to evaluate and create a feasible transition plan for XYZ Farms, while minimizing the social and economic costs associated with farm business succession. The specific objectives are as follows:

1. Identify and review succession planning framework which is important for farm families to possess when looking to build and begin the planning process.
2. Establish the current state of XYZ Farms within the scope of framework.
3. Develop a feasible transition plan for the transfer of ownership to the operation's future owners.

1.3 Significance of Study

Meeting the above objectives will be useful in determining the best possible succession plan of XYZ Farms to the next generation and actionable items of how to do so. A successful transition of the family operation, while maintaining daily activities and tasks, will allow the operation to shift ownership and increase the possibility for growth in the future.

1.4 Methods

A case study methodology has been utilized to better understand the issue XYZ Farms is facing. The methodology allowed for the use of multiple sources and techniques for gathering data as it pertains to XYZ Farms, which has helped shape the operation as it is today. Data were gathered from historical data and facts pertaining to the operation. Interviews and discussions were held with current and future owners. Using historical data and facts, the researcher will have a better understanding of previous events that shaped decisions of previous owners leading to the state of the operation today. Interviews and discussions with the current owners helped to identify core objectives needed for the

operation to be successful going forward. Their insight helps to ensure the transition process will be successful after evaluating all scenarios.

1.5 Thesis Outline

A review of appropriate literature will be provided in the following chapter.

Chapter III provides details for how the theory of the firm can be utilized in the instance of XYZ Farms. Chapter IV will discuss the case study methodology and provide framework to address the issues in farm family succession. This case study and research can be utilized for small family farms, specifically XYZ Farms, looking to begin the succession process from one generation to the next. Chapter V will go on to lay out the structure and background of the family farm's succession plan and will include discussion and documents vital to the transition. Chapter VI will discuss various lessons learned from XYZ Farms' current owners and the future owners. The final chapter summarizes the findings and provides framework and suggestions for further research.

CHAPTER II: LITERATURE REVIEW

Many farm families have the long-term objective of transitioning and passing the business down to their children, which can be a very difficult process. In any family business, the underlying questions of who will take over the main responsibilities and leadership roles in the future may cause tension and conflict for both parties involved. Planning, preparation and communication are three factors that are needed in order to accomplish the task of transitioning the operation from one generation to the next (Schurle, Jones and Hund 2012).

XYZ Farms' current owners are at the age of retirement and would like to see the farm's ownership continue to those in the family. Certain measures must be properly taken to ensure the transition is smooth and appropriately done.

2.1 Why Succession Planning?

Family farming operations are a vital aspect to American agriculture and are also a large contributor to the economy. Without adequate succession planning of those operations, many will cease to exist. According to Thomas, "It is nearly unanimous among all farms that the most important goal of the producer is to pass along the farm business to the next generation. Despite this intense desire, various research studies and surveys indicate most farms fail to make adequate plans to achieve this important goal" (2013, 1). Thomas states that the landscape of agriculture is also changing. There are many different factors that affect the transition process such as new types of business entities, increased land value rates, inheritance and tax laws, an increased concern with environmental rules and regulations as well as fewer farm children that return to the home operation. Due to these factors, there is an even larger importance to review and create a sound succession plan. The stakes are too high not to do so.

Upon death, every estate will be passed on. Without an adequate plan in place, heirs and others involved may be tasked with difficult decisions. It is important that the heirs of the estate are involved in discussions and their individual input is discussed.

2.2 Organizations and Institutional Change

What is the sole purpose of the farming operation's organizational structure? North argues that the basis for existence of the firm are those of transaction costs. If enforcement and information had no cost, then it would be hard to envision the operation's significant role (North, 73). The organization can be considered a place that utilizes its workers to overcome problems and reduce costs in economic activity. In order to pursue the objectives set forth by the operation, owners may incrementally alter the structure. When further pursuing the operation's objectives owners must understand the difference of pure and applied knowledge when setting forth institutional change, such as succession planning. Pure knowledge must be present in order for applied knowledge to exist, and applied knowledge is a major source of pure knowledge growth (North, 75-76). Furthermore, the institutional framework of the operation will shape the direction and amount of skill and knowledge acquired; allowing that direction to be the contributing factor of the organization's long-run development.

In maximizing the behavior of family farming operations, institutional change is formed and acted upon. By maximizing this activity, such as succession and transition planning, current and future owners are learning by doing and investing the most appropriate knowledge and skill set that will pay off for the operation in the future. One behavior may work well for one operation and not for another.

Within the transition of ownership of XYZ Farms, the overall stability of the operation will ensure the successful transition from current to future owners. Having a

stable operation is accomplished by a complex set of constraints that include formal rules invested by current and previous owners along with informal constraints such as elaborations and expansions of those formal set of rules to adapt to the changing culture and economy year after year (North, 83).

Change, such as ownership transfer of XYZ Farms, is subject to relative price changes overtime including land to labor ratio, labor to capita, capital to land along with the cost of information and technological changes. “Changes in informal constraints – norms of behavior – may very well evolve without any specific purposive activity by individuals or organizations, changes in informal rules and/or enforcement will usually require substantial resources or at the very lease overcoming the free-rider problem” (North, 87). Owners of XYZ Farms will respond to change, according to North, by changing their price ratios directly with new resources or profitable ventures. When change is unrealized by the farming operation, owners must estimate the cost and benefits of devoting such resources to alter and adjust rules set forth by previous owners. With this, a new informal equilibrium will gradually evolve after change occurs in the formal rules.

Institutional change and technological change, as seen with XYZ Farms, are the basic keys to economic evolution and will be in the years to come as more family operations look to transition to the next generation. Forgoing long term sustainability goals, such as succession planning and transitioning to the next generation, in favor of short term profitability, will lead to difficult succession decisions. Although short-run paths are unforeseeable, the overall decision to move in favor of the long run is more predictable and more difficult to reverse.

2.3 Communication in Succession Planning

Communication, one of the most critical aspects of family business succession, is often overlooked (Bareither 2003). As humans, we communicate in our everyday lives with colleagues, friends and family members. Discussion with family members regarding important issues can often times lead to uncomfortable decisions that some individual family members may not like. Ineffective communication and the lack of transparency in that communication between family members is often times one of the main causes of conflict and one of the reasons for failed management in the succession planning process.

In an effort to understand communication differences and why communication causes conflict between family members, it is important to understand the generational differences in communication styles with all family members involved. According to Claudia Breeze, generational communication styles and attributes vary (Breeze 2008). XYZ Farms current owners Bob and Jane Doe fall into the Baby Boomer category. This category can be best described as a very free-spirited generation and are very focused on maintaining the advancements that have already been achieved by those prior to them. They are also conflict-adverse. Future owners, John and Jill Doe, fall into the Millennial Generation/Gen-Y category. Individuals classified as Gen-Y are categorized by being high maintenance with a lower level of personal responsibility. They have a hard time taking criticism and have high expectations of themselves. This generation also has advanced technology knowledge and seeks opportunities for further development, whether that be personal or professional.

In addition to the generational gap in communication with family members, Kaplan, et al (2008) believes there are nine barriers to communication between generations that can be found in Table 2.1.

Table 2.1: Nine Barriers to Communication between Generations

Barrier	Description
1	Avoidance of raising issues which are uncomfortable to discuss
2	Assumption that everyone has the same expectations/understanding about the future
3	Resistance to change
4	Fear of an unknown future
5	Desire to avoid conflict among family members
6	Uncertainty about individual family members' plans for the future
7	Established family decision-making patterns
8	Difficulty in facing realities about growing old/giving up control
9	Avoidance of having to make difficult decisions about the distribution of assets

Based on the barriers seen in Table 2.1 and the generational gap in communication preferences, there is a sense of indifference towards succession decisions and communication that occurs on a daily basis within XYZ Farms. As North stated, communicable knowledge is one that is transmitted from one person to another and in the instance of farm family succession, is important especially with the generational differences. Along with an open line of communication, it will be vital that the knowledge passed from one generation to the next be clear and understood.

2.4 Farm Family Succession

During a well-managed succession, a stable yet feasible business which family members have much invested in can be handed down to the next generation. According to Jones, “Generational transfer (succession planning) is arguably one of the top challenges facing family businesses” (2005, 1). About 30% of businesses owned by families are transferred successfully to the second generation; 15% of those are transitioned to the third generation and only 5% of those make it to the fourth generation. Why is that the case? Goals may differ from generation to generation but it also appears to be the lack of

understanding of issues, failure to communicate, and the inability or lack of awareness in planning for the future.

According to Jones, successful farm transition first starts off with assessing the current business. Reviewing financial measures such as Net Farm Income, Rate of Return on Assets (RORA) and Rate of Return on Equity (RORE) are three key measures that will allow owners and future owners to assess the current state of the operation. The second step is to evaluate the operations strengths and weaknesses. Internal factors are viewed as either strengths or weaknesses while external factors are viewed as opportunities or threats (Jones 2005). Owners must then strategically consider the future, ranging from discussion of the vision and mission of the operation and getting it down on paper so all involved understand and are in agreement. Once completed, an open line of communication with those involved must be established. Regularly scheduled meetings with those family members are one common aspect that all successful transitions have in common.

2.4.1 Transition Planning: 12 Steps to Keeping the Family Farming

Schurle et al.'s *Transition Planning: 12 Steps to Keep the Family Farming* framework provides the logical steps needed in order to successfully transition the family farming operation to the next generation. All aspects of the business are considered such as: wants and needs, evaluation of appropriate personnel, analysis of financial documents pertinent to the operation, a SWOT analysis as well as estate planning for the future. A great deal of planning and preparation is needed in order for a successful transition to occur. By actively working through these twelve steps, XYZ Farms can increase their possibility for a successful transition.

While utilizing the previously mentioned 12 step method, XYZ Farms and its owners will explore the opportunity of transition through a case study approach. Robert K

Yin identified three types of case studies: descriptive, exploratory and explanatory (Yin 1994). For the purpose of this research thesis of XYZ Farms, an exploratory case study will be utilized as it is designed to explain the current relationship and state of XYZ Farms. This explanation will be critical in the evaluation of a sound transition plan.

2.5 Case Study Methodology

A single-case study methodology is utilized to provide an in-depth investigation into a succession planning framework for XYZ Farms. Benefits of utilizing case study methodology include an extensive amount of detailed information that is presented through research, qualitative data is collected which otherwise may not be readily available with other methods of research and the research may utilize past history, in this case the history of the farming operation. Robert K. Yin identified three specific types of case studies; descriptive, exploratory and explanatory. Currently, the operation is in the exploratory phase and will be presented utilizing qualitative and quantitative methods throughout the remainder of this research.

As a young farmer interested in family business succession, I took a special interest in this topic and have seen the need and importance of implementing a sound succession plan for XYZ Farms, not only for the current generation, but for those forthcoming. A great deal of preparation and planning along with communication will be vital to the successful transition of XYZ Farms. Each party associated with the transition has common concerns and interests, but with the gap in the generation from current to future owners, there could be large obstacles to overcome.

CHAPTER III: SUCCESSION PLANNING FRAMEWORK AND THEORY

The theory of the firm describes the behavior of firms who seek profit maximization in terms of the firms' inputs, production techniques, quantity of goods produced and the price they charge for specific goods. It is also suggested that firms generate goods to a point where marginal revenue equals marginal costs and assumes that firms will be organized in a way to secure profit subject to the least amount of cost.

3.1 Institutional Change

According to North, "Organizations will be designed to further the objectives of their creators. They will be created as a function not simply of institutional constraints but also of other constraints (e.g., technology, income, and preferences). The interaction of these constraints shapes the potential wealth-maximizing opportunities" (1990, 73).

Knowledge, skills and learning of employees of any firm or organization will have a payoff within the organization. Communicable knowledge, knowledge that is passed from one person to another, is the easiest form of knowledge transfer during any institutional change. Tact knowledge is knowledge that is not easily communicable and must be acquired by practice. Learning by doing in many organizations is the key fundamental that sets firms apart from one another. It allows for knowledge to be communicated and learned from others, acquiring skills and a routine for interaction, thus having a positive payoff for the firm especially during ownership change.

3.2 Case Study Strategy

In this sub-section, it will be argued that case study research is best suited to analyze and accomplish the objectives of this research mentioned in Section 1.2. A case study research method provides a detailed examination of few people, items or entities that

focus on understanding specific dynamics in any given single setting. This methodology typically combines data collection techniques, not limited to the following; interviews, questionnaires and historical data. Certain observations may be either qualitative, quantitative or both (Eisenhardt 1989) while utilizing a mixture of methods ranging from personal observation to a study of relevant documents and records.

Case studies are easily and best utilized when the analyst is presented with an opportunity to interact and examine an actual, on-going process in real-life context (Yin, *The Case Study Crisis: Some Answers* 1981). Studying individual cases allows the researcher to learn important viable details and provide insight to the problem and issue being considered. This detailed insight is required and valuable when looking into behavior of an organization and analyzing the relationships between people and the organization and to show why specific behavior and communication occur.

Traditionally, case studies were only thought of as appropriate for the exploratory phase of investigation, history and stories for the descriptive phase, and experiments for explanatory inquiries (Yin 1994). This view of case study research reinforced the ideas that they could do more than describe or test propositions; the case study strategy can be used for all three phases: exploratory, descriptive and explanatory.

The case study approach, although typically utilized in medical and psychological research, is beginning to receive acceptance in agricultural economics as a helpful research tool. Case study research lends itself to the task of investigating a complex process that has multiple variables of importance, such as succession planning. It also is well suited to inductive and deductive research methods. It is unique in the fact that it can encompass a full variety of evidence ranging from documents, interviews and observations. The case

study approach is the method of choice under which conditions to achieve a lot of detailed information about the subject of interest (Simon 1978).

Case studies have also been seen as a less desirable method of research. The greatest concern is due to the lack of precision and accuracy of the actual case study research. Case study research is gathered by the investigator from historical data, interviews and observations and is subject to that investigator's biased views or inputs that can and have influenced the direction of the findings and conclusions of the study. Not only can bias be subject in terms of the investigator but it is also subject to interviews and surveys that are conducted from various other individuals. Problems of bias are common to all types of research methods, but, in case study research, they may have been more frequently encountered and less frequently overcome (Yin 1994).

The case study method of research makes sense for analyzing the problems and issues of succession facing XYZ Farms because:

1. It allows for a detailed description of the family farm's development and history, giving the reader insight into why the objectives outlined were important for the current and future structure of the operation.
2. Data can be collected utilizing various methods including in-person interviews and conversations as well as historical trends and data of the operation. This allows for the ability to pull from many different source venues to develop a well-rounded succession plan for future transition of the operation.
3. XYZ Farms is currently in the exploratory phase of this investigation and transition process, therefore collecting adequate and an abundance of information from many different sources is crucial in making a sound

succession plan. The case study format allows for the exploration of the history of the operation and the opportunities the family farming operation has for the future.

CHAPTER IV: SUCCESSION PLANNING FRAMEWORK AND METHODS

Chapter IV provides an overview of the methods and succession planning framework that were used to explore the opportunity of transition for XYZ Farms as it relates to the theory of the firm. A case study research method is utilized to create a better understanding of this complex issue and task at hand. Data were gathered through historical data and facts pertaining to the operation, interviews and discussions with current and future owners.

4.1 SWOT Analysis

An analysis of XYZ Farm's strengths, weaknesses, opportunities and threats will allow current and future owners to determine various management strategies that fit their operation (Schurle, Jones and Hund 2012). A SWOT analysis can be performed multiple times during various courses of the operation's cycle. Analyzing the strengths and weaknesses internal to the operation as well as the opportunities and threats from outside of the operation will set forth a sound plan and evaluation for XYZ Farms to be competitive in the coming years.

4.2 Transition Planning: 12 Steps to Keep the Family Farming Tool

XYZ Farms current and future owners will utilize Schurle et al.'s *Transition Planning: 12 Steps to Keep the Family Farming* as their framework in order to develop and discuss a sound transition plan from the current to the future generation. While many family-owned businesses have the long-term objective of passing the business down to the next generation, a great deal of planning and communication is needed in order to accomplish the task at hand. In utilizing these 12 steps while keeping the theory of the firm

in mind, XYZ Farms will set forth to overcome the odds and create a sound transition plan; keeping in mind long run motivation will outweigh the short-run stressors.

4.3 Data

For this case study, data were collected through historical data and facts pertaining to the operation as well as interviews and open communication with current and future owners of XYZ Farms. Both of these components played an important role in developing proper analysis that could be utilized by XYZ Farms to form a sound and feasible succession plan.

Understanding the history of the operation within the scope of past historical events allows for explanation of the past and current decisions of the owners. Learning from past experiences such as marketing commodities, operational purchases and expenses and educational meetings all have tailored what the operation is today. Continuing to gain a better understanding and respect for the history of the operation will play a large role of the operation in the future.

Let it be known that owner and farm names have been changed due to the confidentiality of the case. In-person interviews and open communication of owners, both current and future, were conducted to gain a better understanding of the current state of the operation and to discuss XYZ Farm's future. These loose structured interviews gave the interviewer freedom to ask any questions beyond those under the scope of Schurle's 12 Step Framework, allowed for candid conversations, and provided insight to the operation's past and current state. Questions focused on evaluating what matters most to the operation, discussing human resource roles within the operation, a SWOT analysis and an evaluation of the operations financial statements for a successful transition.

Discussion with current and future owners was held monthly. Most conversations were held during the evening for the sake of all members being present. Meetings and discussion between Bob and John occurred more frequently, typically during the day while they were each working on the operation. These conversations ranged from daily duties and various discussion topics that were brought up and top of mind while on the farm.

4.4 Research Bias

Within this case study, as any other research, one must examine and keep in mind research bias. In the case of XYZ Farms, family meetings were conducted without an outside party present to take accurate notes from a neutral standpoint. Family members were taking notes from their point of view, which may not be the right point of view in some instances. Also, during meetings some questions asked and discussed were not specifically open-ended questions for family members; some were yes and no answers and there was little discussion after.

With these meetings and discussion, family members knew the sole purpose for discussion and meetings; transitioning the family farming operation. Since family members knew this and who the operation would be transitioned down to, this may have played a factor in how some answered questions during these meetings.

In this instance and for this research, results may have been influenced by confirmation bias. Confirmation bias occurs when a researcher interprets data in a way that will support their hypothesis or expectations; in this case the decisions made for the future of the farming operation.

One can reduce researcher bias by considering every response and point of view during family meetings as well as having an outside peer or neutral party evaluate and

review family discussions. For this research, the latter duty was performed by the thesis advisor.

4.5 Limitations

Various limitations presented themselves during the course of this research. Understanding such limitations to this research will allow all parties involved to take into account various decisions and why those decisions were made.

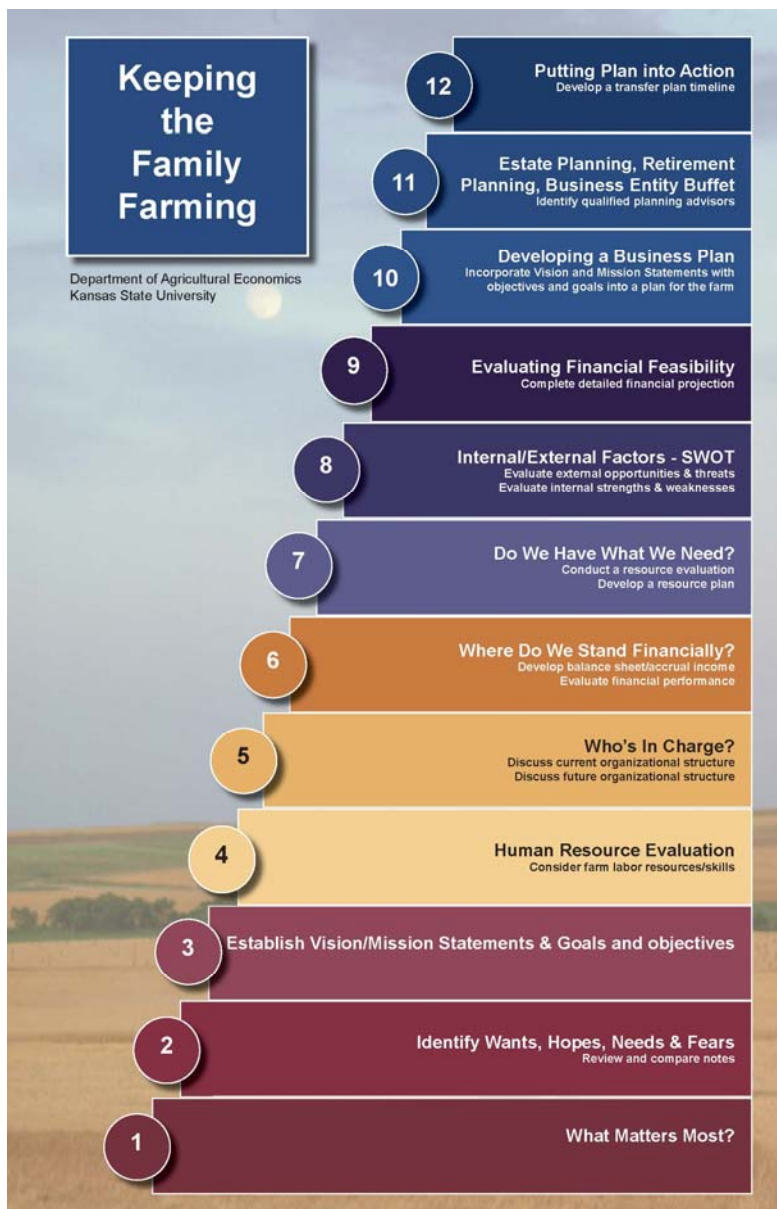
In family meetings, only current and future owners were present. Other various family members of the operation were not present for meetings or involved in any succession planning discussion of the farm. Also, at family meetings, since there was not an outside individual present, notes were from each individual's point of view, causing various degrees of researcher bias, as discussed above. One way to improve this limitation would be to have a neutral party present recording audio during these family meetings and discussions. This allows each individual involved to review at a later date.

Another limitation of this research is the discussion that happens on a daily basis between Bob and John Doe. In the spur of the moment, items may come up for discussion and decisions made without including Jane and Jill. Such information is typically summarized from each point of view and relayed back to Jane and Jill.

CHAPTER V: XYZ FARMS – 12 STEP FRAMEWORK

The objective of this thesis is to identify and assess a succession planning framework for XYZ Farms given the current state of the operation. To do so, Schurle’s “Transition Planning: 12 Steps to Keep the Family Farming” framework Figure 3.1 was utilized and assessed as follows.

Figure 3.1 Keeping the Family Farming



5.1 Step 1 – What Matters Most

Assessing beliefs, values and reflecting on what individual owners value as important is the first step in any transition process. Faith, family and farming are important to the current and future owners of the operation. XYZ Farms would like to keep the operation in the family for generations to come. Not only are the owners concerned with the future of the farm but drawing from past experiences, regardless if they were positive or negative, is important to understand and build upon. Having ample conservation practices put in place, whether that is no-till, CRP or terraces, allows the operators to be good stewards of the land now and in the future. Not only is land stewardship important to the operation, they also take pride in producing safe, quality beef and pork products.

Community service is also important to the operation. 4-H has been a part of many generations on the family farm and will continue into the future. Bob, Jane, John and Jill serve on various county boards and volunteer at the county and state fair. They are also involved in many industry groups such as the Iowa Cattlemen's Association and the Black Hawk County Farm Bureau.

Advocating for the agriculture industry is something the family operation has done for many years. Every May, local schools transport kindergarten students out to the farm to showcase agriculture. Crops, livestock and food safety are all highlights of the visit. Not only do they spend time with young students, each December XYZ Farms, through Iowa State University, hosts a foreign exchange program to showcase American agriculture to those from Brazil, Argentina, Japan and Korea.

5.2 Step 2 – Identify Wants, Needs, Hopes, and Fears

5.2.1 Wants

Identifying items that XYZ Farms wants in the years to come needed to be evaluated by current and future owners. All agreed on a smooth transition of the operation as their number one focus. Also, the potential of expansion on both their crop and livestock enterprises; ranging from renting or purchasing additional crop acres to upgrading current cattle and hog facilities to accommodate for additional animal numbers were also discussed. Future owners discussed the potential of selling seed or chemicals in the future, all pending discussion and analysis at the appropriate time.

5.2.2 Needs

The number one need that was agreed upon was the smooth transition of the operation. If the operation is not successful in transitioning, the existence may be at jeopardy. Along with a smooth transition, future owners agreed that the help and guidance from current owners will be a huge asset and will be needed throughout the transition. It was also agreed upon that expansion will need to be evaluated and taken into consideration in order for the farm to be competitive.

5.2.3 Hopes

In the case of XYZ Farms, the main hope is that all parties involved in the transition feel satisfied, in agreement, and happy with the transition plan that is put into place.

5.2.4 Fears

There are many fears when owners of a business retire and transition to the next owners, not only on the business side but the personal side as well. With transition, there is always change involved. Will the future owners perform tasks differently than the current management, and how will the current owners react? Will the operation be successful and profitable during and after the transition of ownership? What will commodity prices do in

the future? How important will it be that the current owners are still involved on a daily basis? These questions are all questions that have been brought up for discussion during family meetings.

5.3 Step 3 – Establish Vision/Mission Statements, Objectives, and Goals

Establishing a vision statement is critical for any business to be successful in the future, especially any business looking to transition. Having a common vision amongst current and future owners will hold the transition plan together (Schurle, Jones and Hund, 1). While the current and future owners sat down to discuss these three key topics, information from Jones' and Fogleman's article (2005, 1-4) was utilized to illustrate and provide a basis of discussion.

5.3.1 Vision/Mission Statement

Vision statements are very broad and future oriented. A mission statement is more concise, contains parameters and includes the state of the business today. Some firms may combine their vision and mission statement to form one statement. XYZ Farms vision and mission statement, to hold the family farming operation together all while leaving resources in a better place than when they started for the next generation, is consistent between the current and future owners. To add, family members also thought it was important to consider the importance of making a living while raising their family on the farm.

5.3.2 Objectives

Objectives should be geared towards the vision and be easy to visualize. XYZ Farms would like to incorporate new technology and continue to update their facilities and machinery along with utilizing additional conservation practices to maintain the land for future generations.

5.3.3 Goals

In general, goals are more specific, measurable and have a deadline in place.

Thinking strategically about the operations goals in the short and long run will be key to the success of the operation. Goals outlined by current and future owners are as follows:

1. Upgrade cattle facilities
 - a. Working and processing area to be updated over the next 2 years.
 - b. Load out chute and pen to be updated over the next 3 to 5 years.
 - c. Pens and yards to be updated over the next 5 years.
2. Upgrade hog facilities
 - a. Research additional building options to be constructed in the next year.
3. Incorporate and upgrade crop enterprise
 - a. Incorporate cover crops into the rotation over the next year.
4. Acreage
 - a. Continue to maintain the acreage every year.
 - b. Upgrade buildings as necessary.

5.4 Step 4 – Human Resource Evaluation and Step 5 – Who is in Charge?

Evaluating the strengths and weaknesses of those involved in the operation will be key for XYZ Farms. It is important for individuals to be in positions where they thrive and contribute success to the operation. A human resource evaluation was done with the four members of XYZ Farms and can be found below along with a breakout of current ownership.

5.4.1 Bob Doe, Owner, President, Operator

Bob is a current owner of XYZ Farms, owning 45% of the operation. He is in charge of payroll decisions, state and federal programs as well as any tax information for

the operation. Bob's many strengths range from an exceptional work ethic, knowledge of the farming operation, positive attitude and easy going. As in any transition of operation, age is a factor that comes in to play as he is nearing retirement. His willingness to adapt to new technology and practices going forward along with communication in specific situations can be seen as weaknesses.

5.4.2 Jane Doe, Owner, Secretary

Jane is a current owner of XYZ Farms, owning 45% of the operation. She is included in capital investment decisions of the operation. Jane is a homemaker and plays a viable role in the operation. She is also in charge of all community outreach to educate the public. Similar to Bob, Jane is nearing retirement and looking to transition on. She is also very busy with her photography business, grandkids, visiting family, and making the time spent on the farm scarce.

5.4.3 John Doe, Owner, Vice President

John is Bob and Jane's youngest son, owning 10% of the operation. He is currently responsible for making marketing decisions for the operation's commodities along with all purchasing decisions. John's work ethic and his known importance of the farming operation are seen as strengths along with the willingness to adapt and incorporate new technology into the operation. John also analyzes and thinks through scenarios before making decisions. His laid back attitude makes him easy to work with. As any young farmer knows, his age and lack of experience can be seen as a weakness. His organization and ability to train new help or hired hands is another aspect that can be improved on for the future. He is also currently living off of the farming operation making it harder to be fully engulfed when needed.

5.4.4 Jill Doe

Jill is John's wife and does not personally own any of the operation. She grew up on her own family farm where she gained a strong work ethic. Jill also has an off farm job that provides her family with additional income and benefits. Her current occupation within the agriculture industry allows her to have on and off farm knowledge and established relationships with others in the industry. Since she is not on the farm working on a daily basis, she is willing to learn to be more involved. Similar to John, her age and experience can be seen as a weakness.

5.5 Step 6 – Where Do We Stand Financially?

This step answers critical and valuable questions regarding the operation's financial situation. In this section you will find an assessment of basic financial statements including profit and loss statements, balance sheet and a statement of cash flow, all of which can be found in Appendix A, B and C.

5.5.1 Liquidity Indicators

Measuring liquidity, the degree to which debt obligations coming due can be paid from cash or assets that will soon be turned into cash, is measured by the current ratio seen below (Platina, Financial Performance Measures for Iowa Farms 2016). Platina states that the current ratio of a farm that displays good liquidity is one that is at least 3.0 or higher

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Another measure of liquidity that was performed for the analysis of this study was the amount of working capital of the operation. The amount of net working capital that the operation needs depends on the size of operation. This measure allows owners to see the amount of funds available to purchase items such as inputs and inventory items after the sale of current farm assets and payment of all current farm liabilities (Langemeier 2011).

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

5.5.2 Solvency Indicators

Solvency measures the degree of which all debt and other expense obligations are used in the operation relative to the amount of owner's equity that is invested. Solvency ratios also indicate the operation's ability to repay all of their financial obligations if all of their assets were to be sold. In the case of XYZ Farms, the debt to asset ratio was analyzed. This compares the operation's total liabilities to the value of their assets and expresses the amount of the operation's assets that are owed to its creditors.

$$\text{Debt to Asset} = \text{Total Liabilities} / \text{Total Assets}$$

5.5.3 Profitability Indicators

In the case of XYZ Farms, the goal is to make profit, hence making it vital to evaluate their profitability measures. Profitability measures the extent to which the operation generates a profit from the use of their labor, capital, management and land. Three profitability measures were evaluated for XYZ Farms; rate of return on assets, rate of return on equity and the operation's operating profit margin.

The rate of return on equity ratio (RORE), provides a benchmark of return on the owner's equity utilized by the operation.

$$\text{RORE} = (\text{Net Farm Income} - \text{Unpaid Family Labor}) / \text{Average Equity}$$

The farm's operating profit margin (OPM) is the percentage of profit for every dollar of sales. The operation has two ways to increase their profits; by increasing the profit per unit produced or by increasing the volume of production (Langemeier 2011).

$$\text{OPM} = (\text{Net Farm Income} + \text{Interest Expense} - \text{Unpaid Labor}) / \text{Total Revenue}$$

The rate of return on asset ratio (RORA) is often used as the overall index to determine profitability on an operation.

$$\text{RORA} = (\text{Net Farm Income} + \text{Interest Expense} - \text{Unpaid Labor}) / \text{Total Assets}$$

The rate of return on assets of an operation links with two other ratios, according to The DuPont Analysis (Hadley 2012). Those ratios are the Asset Turnover Ratio (ATO) and the Operating Profit Margin (OPM). The RORA measures how efficient the operation is in turning inputs into outputs.

$$\text{RORA} = \text{ATO} * \text{OPM}$$

5.5.4 Financial Efficiency Indicators

Financial efficiency measures intensity in which a farm operation utilizes its assets to generate a value of farm production and how effective the production was. The asset turnover ratio (ATO) is a common measure of how efficient an operation's assets are used to generate revenue.

$$\text{ATO} = \text{Total Revenue} / \text{Total Assets}$$

In the table below, you will see how XYZ Farms financial performance compared to Iowa Farms. Although the years in comparison are not similar, 2016 for XYZ Farms and 2015 for the average Iowa Farm, it still allows the operation a benchmark for performance amongst other operations within the state.

According to the USDA's Economic Research Service, ERS, the 2016 forecast of national net farm income represented the fourth consecutive year of decline from a record high in 2013 (Schnepf 2017). This decline is primarily the result of weak prices for crop and livestock products compared to the prior year period of 2011-2013, where prices for those commodities reached near record highs. This outlook coupled with lower farm wealth, suggests a weaker financial picture for the agricultural sector as a whole in the year to come.

Table 5.1: XYZ Farms Financial Analysis Compared to Iowa Farms

	XYZ Farm	Average of All Farms
	2016	2015
Liquidity Measures		
Current Ratio	7.76	2.74
Net Working Capital	\$864,944	\$657,416
Solvency Measures		
Debt-to-Asset Ratio	0.08	0.21
Profitability Measures		
Rate of Return on Assets	1.63%	0.60%
Rate of Return on Equity	1.61%	-0.90%
Operating Profit Margin	3.62%	1.40%
Asset Turnover Ratio	44.81%	42.85%

5.5.5 XYZ Farms' Financial Values

When evaluating XYZ Farms' liquidity measures compared to the average of all Iowa Farms in 2015, you can see the values were considerably different. XYZ Farms had a current ratio of 7.76 (7.76:1), allowing the operation to be capable of paying off obligations since it has a higher portion of asset values relative to the value of liabilities. The operation's net working capital of \$864,944, which is higher than that of an average Iowa farm, can be contributed to the cattle enterprise of the operation.

The main solvency measure, debt-to-asset ratio that was utilized for this study of 0.08 was significantly lower compared to an average Iowa farm. XYZ Farms, comparative to the average Iowa farm, has a reduced level of risk regarding the amount of farm assets that are owed to creditors. The goal of many operations is to be debt free and with a low debt-to-asset ratio, this is one way to protect the operation from potential risk.

With regards to XYZ Farms' profitability measures compared to the average Iowa farm, they were slightly higher. For the purpose of this study, it is estimated that total unpaid labor between Bob and John Doe is \$55,000, which does not include labor needed for each of their own acres owned. The operation's RORA of 1.63%, shows owners that for every dollar of the operations assets, they are generating 1.63% in earnings; the larger the number the better off the operation is. Similar to RORA, XYZ Farms' RORE is significantly larger than the average Iowa farm. With an RORE of 1.62%, the operation was able to generate profit from the money shareholders have invested, which is exceptional given the state of the farming economy. The operating profit margin of XYZ Farms of 3.62% shows owners that for every dollar of sales, there is a 3.62% profit, again this margin is higher compared to the average Iowa farm in 2015.

The final financial measure for this study that was analyzed is the asset turnover ratio. XYZ Farms, compared to the average, was very similar. Given a down year the operation was able to utilize its assets to generate revenue, slightly more than others in the state. The larger value indicates that the operation is utilizing their assets more efficiently to generate revenue.

An evaluation of financial ratios will allow XYZ Farms to compare and detect their financial strengths and weaknesses while providing a benchmark for future owners. As you can see from the previous year, the operation was able to create some profit during a year of unfavorable conditions. In the appendixes, you will find a three year financial statement comparison for XYZ Farms. While the revenue and profitability of the farm has decreased in the past three years, this downturn in financial performance is primarily due to a decrease in commodity prices. Given that the detailed, competitively favorable, single year

financial analysis was conducted in one of the worst years out of the three, the financial performance of the farm is considered worthy for succession.

5.6 Step 7 – Do We Have What We Need?

This step has allowed the operation's owners to develop an inventory of what resources are available, including land, machinery, buildings, financial resources and people. An extensive evaluation of resources such as land, machinery, financial resources and buildings was completed, although it was not an easy task to do. Evaluation of the usefulness of resources was different from the current and future owner's perspective, mainly the machinery and people. Further discussion and evaluation of the usefulness of these resources will need to take place with both current and future owners and an agreement must be made. This will allow for further evaluation of resources and will help determine which resources are underused and have the potential of creating a new business opportunity for the operation. It will also help future owners decide if investments in additional resources such as land, labor and equipment will be needed in order to accomplish the goals and objectives of the operation.

5.7 Step 8 – SWOT Analysis of Internal/External Factors

Determining XYZ Farm's strengths, weaknesses, opportunities and threats allows owners to determine strategies for the future. Internal factors are viewed as either strengths or weaknesses while external factors are viewed as opportunities or threats (Jones, Successful Family Business Transitions 2005).

5.7.1 Strengths

The following strengths were identified by current and future owners. These strengths make the operation competitive when viewed by outside businesses and neighbors.

- Diversified operation of grain and livestock
- Conservation practices of no-till and terraces
- Knowledge of new technology
- Decent line of equipment to utilize
- Good financial position

By diversifying within the operation, they are able to plan for risk associated in either enterprise. From experience, it has been seen that if the grain enterprise thrives one year, the livestock enterprise declines relative to the operation in previous years.

Utilizing conservation practices of no-till and terraces provide year-after-year benefits. Terraces, implemented when there are steep hills and unfavorable slopes on crop ground, break up water flow and are typically planted to grass, reducing soil erosion. Many terraces have been built over the years and are in good condition. No-till farming practices may reduce soil loss up to 90 percent (Geske 1998). The residue left from the previous crop year helps keep raindrops from directly hitting the soil and helps to stop the soil from washing away.

5.7.2 Weaknesses

The following weaknesses were identified by current and future owners. Identifying these weaknesses will show owners what can be improved upon.

- Small labor force and operation relative to other operations in the area
- Technological advancements are typically 3 to 4 years behind the market
- Risk tolerance compared to others in the area. When farm ground comes for sale or rent in the area, it is very hard to compete.

- Ability to have others operate main equipment such as anhydrous units, planter and sprayer.

Having a small labor force and small operation relative to other operations in the area proves to be a main challenge and weakness. Basic daily duties need to be performed on every operation that produces crops and livestock ranging from morning and evening feedings, equipment maintenance and input purchases to name a few. Although the amount of time needed to be perform these duties varies with the size of the operation, compared to other operations of the same caliber, XYZ Farms is understaffed. This also ties into the ability to have others operate equipment. In having a small labor force, it is hard to have multiple pieces of equipment to run at the same time, posing a large challenge during the busy times of the year.

Table 5.2 below shows estimated labor hours needed to produce row crops, livestock and to perform various other tasks around the operation. As you can see from the table below, a total of 3,317 labor hours are needed for the production of row crops, 2,700 hours are needed for livestock production and it was estimated that 500 hours were needed for miscellaneous tasks other than crop and livestock production. Currently, only two full-time employees are involved in crop production enterprise, having a total of 4,600 hours available; therefore, the operation will need to rely on seasonal labor again for their upcoming year.

Table 5.2: XYZ Farms Allocation of Labor Hours - 2017

	Labor Hours Required	Full Time Labor Supply	Temporary Labor Supply
Crop Production - Corn, Soybeans and Alfalfa	3317	2500	817
Livestock Production - Hogs and Cattle	2100	2000	110
Misc. Labor	500	50	450
Total	5917	4550	1377

5.7.3 Opportunities

The following opportunities were identified. These opportunities will help identify external factors that can be an advantage to the operation.

- Technology advancements
- Utilizing cover crops into rotations
- Expanding livestock production, either hogs or cattle
- Continuing education to the general public. Potential of offering tours for the Millennials and older school children
- Ability to market commodities using different methods
- Seed sales
- Custom work for smaller farmers in the area, ranging from grid sampling, side-dressing, anhydrous application or spraying

Utilizing cover crops in cropping rotations has multiple benefits (Arbuckle 2014). These benefits, both agronomic and environmental, include; reducing soil erosion, improving productivity and reducing nutrient loss. With the public's increasing awareness of nitrates in the state of Iowa, it is even more important than before to protect the nutrients they are utilizing on crop acres.

Providing services such as custom grid sampling and anhydrous application for farmers in the area is an opportunity for the operation. With the amount of older producers

and the tight grain markets in recent years, producers are looking to cut costs where appropriate. Many of the older producers in the area typically have small operations, 200-500 acres, and do not have the sense of urgency as other larger operations in the area. With their age, they are unable to perform such services, allowing a younger producer to do so.

5.7.4 Threats

The following threats were identified. These threats identify external and some internal obstacles to the operation.

- Competition for land
- Injury of workforce
- Upgrading current technology
- Marketing of commodities due to the varying prices and challenging times

In any given year, these threats may vary. Market fluctuation is always a threat to any operation. Market prices for the operation's commodities can vary month after month, stressing the need for various marketing techniques to be implemented to protect their risk.

Competition for land in the area has been on the rise in the last five years. Crop acres are rarely up for sale. When they are up for sale, the affordable price per acre for the operation is typically under the market rate.

CHAPTER VI: LESSONS LEARNED

Given the knowledge and information that has been researched and presented, how should XYZ Farms structure the transition from current to future owners? In this section, perceptions of both the current and future owners will be discussed after beginning the first half of the transition planning process.

6.1 Transition Planning Perceptions of Current Owners

Current owners, Bob and Jane Doe, are and have been a little hesitant with the succession of the family farming operation. The fear of the unknown is one of the largest hesitations they both currently have. Their personal will has not been updated in over thirty years and continues to be pushed to the sidelines; although they both know that it is something important that needs to be discussed. The fear of passing away, retiring without plans in place along with knowing the right strategy to take personally and with the operation are items that the current owners are addressing.

With any large family, treating those equal is a concern of the current owners, since they have 6 children and their families to consider. Going into this succession planning process, they know that fairness may not be seen in the eyes of all involved, but they want everyone to be happy. They both do understand that once a plan is in place, personally and with the operation, they would like all of their children to know what the plan is and why they have set it up the way that they did.

After discussing the family farming operation's succession plan, current owners have been open and willing to work through the transition process to future owners. They see the benefit as well as the costs that could potentially happen if one is not in place.

While going through the first steps of the plan, discussing current management and decision making processes was top of line for the current owners. To much surprise of the

future owners, current owners were open to management change and the new processes they would be willing to implement in regards to the operation. Bob, willing and able, is ready to transition out of the management decision role to a labor role and feels very comfortable with John taking over management decisions. John feels honored and comfortable with that decision so long as he receives guidance and direction from Bob.

Discussing retirement was a very difficult conversation for Bob. He is looking forward to taking a more passive role within the operation as far as management decisions go, but letting go of the farm in general is very difficult for him. Decisions that keep the operation running day after day can, at times, be very stressful, and that is something Bob is alright with transitioning down to John.

Overall the first phase and discussion of XYZ Farm's succession and transition plan have been an eye opening and positive experience in the eyes of current owners.

6.2 Transition Planning Perceptions of Future Owners

As future owners of the operation, many perceptions and discoveries have been made in terms of the future of the operation after completing the first half of the transition process. Expansion and growing are top of mind options that, with careful planning and research, could potentially be put into action in the coming years.

Discussion with current owners, Bob and Jane Doe, has allowed the future owners to gain in-depth knowledge regarding the history of the operation and why processes and things have been done the way they have been for many years. Of course, when analyzing the past and looking to the future, many advancements can be utilized and implemented to ease the work load of those involved, keeping in mind the costs associated with doing so.

Keeping in mind the goals of the operation for the future, John and Jill Doe have taken into consideration the future outlook from their point of view. Even with the tough

times that agriculture is currently facing today, the operation is doing well given the circumstances. From their point of view and in communication with the operation's current owners, planning for the future is important not only during the high and positive times within the agriculture industry but it is especially crucial in the down times. Understanding and evaluating breakeven costs for row crop and livestock enterprises will be important in planning yearly production numbers with their current allocation but especially critical if the operation looks to expand in any of these enterprises.

Current owners have recently been approached with new business ventures such as seed sales and expanding their hog production with an additional 1,200-head finishing unit. The guidance and experience from current owners will become important when evaluating if these options are feasible for the operation.

Undergoing the first steps of the transition process have been challenging at times, but they see an open line of communication being the key to continuing the process successfully.

CHAPTER VII: CONCLUSION

The overall objective for this research was to establish and identify succession planning framework for XYZ Farms and to identify and develop a feasible transition plan for the transfer of ownership. With the number of aging farm owners, transitioning the family farming operation to the next generation is important for the operations survival. The findings from this research suggest that transitioning XYZ Farms from current to future owners would be difficult given some of the discussion mentioned above, but it would also be a rewarding experience for the operation and those involved.

7.1 Recommendations

The following recommendation for XYZ Farms succession is made. Succession planning involves great risks yet also great rewards. The tireless hours of research, discussion and communication between all parties involved will pay off in the long-run. Taking the time to create and review a sound succession plan for XYZ Farms is a long process that will be draining at times, but the payoff in the long run will outweigh those costs of not having a succession plan in place for the future generations.

In completing the first eight steps of Schurle et al.'s *Transition Planning: 12 Steps to Keep the Family Farming*, the remaining steps are recommended for further research and completion to ensure a successful transition.

7.1.1 Step 9 – Evaluating Financial Feasibility

Developing and accessing financial documents will be critical to the future of the operation. Documents to be assessed included crop and livestock enterprise budgets and cash flow budgets. Utilizing a detailed financial projection program called Finpack™ will allow XYZ Farms to plan and analyze their financials to better understand their financial situation and make informed decisions. This program provides tools to effectively use farm

records to make business analysis and cash-flow planning as complete as possible and teaches financial concepts. Providing a formal financial plan to follow allows the operation to focus on the plan and enables producers to know they are on track (Schurle, Jones and Hund 2012). It is also recommended to evaluate these projections each year to ensure the operation stays on track with future planning.

7.1.2 Step 10 – Developing a Business Plan

In previous research, the operation's values, vision and mission statements, objectives and goals have been defined and evaluated. In one of the final steps it is important to incorporate everything together in a comprehensive plan for the operation. A business plan is extremely important for those business looking to expand and for farms that are transitioning from one generation to the next (Schurle, Jones and Hund 2012). Business plans are an effective tool to communicate the operations plans to lenders and partners, such as family members and employees; all while documenting financial viability of the operation. It is recommended for the operation to utilize the AgPlan™ framework to set forth on the development of a business plan.

7.1.3 Step 11– Estate Planning, Retirement Planning and Business Entity Buffet

According to Schurle, “No transition plan can be effective and sustainable without addressing the issue of estate planning” (2012, 3). It is not only important for the retiring generation, but the succeeding generation must consider estate planning as well. Schurle mentions a great deal of interdependence between business structure, organizational structure and financial structure can be complicated due to estate and income taxes and how assets are passed on to the next generation. Having a sense of security for both parties is very valuable and an open line of communication will ease this process.

Discussion between current and future owners regarding estate planning is a necessary and important conversation that will need to take place. Future plans and succession of assets will need to be put into writing and made legally binding, allowing the future owners to be at ease with conflict between off farm heirs.

7.1.4 Step 12 – Putting the Plan into Action

The final step in the outline framework and research is to put the succession plan into action. A timeline will need to be developed for XYZ Farm's current and future owners to layout when and how various details will be addressed and who will be responsible for each specific task. Future owners will need to take into consideration the time it takes for the retiring generation to pass off management roles and decisions.

Looking at the framework that has been laid out in this research and from accredited articles, the risk of not having a sound succession plan in place is too large. It is important to keep the discussion going and layout an appropriate framework for transition that all parties can mutually agree upon.

This research has allowed for an analysis and a complete look at the family farming operation to determine the appropriate route of succession and transition to the next generation. It has also given the opportunity to allow for open communication between all parties involved, since they do have the goal of a successful transition in common.

7.2 Suggestions for Further Research

This single-case study research method used in this thesis provide a guide for future research with all operations ranging from small family farms to larger operations. This study offered many answers but posed many questions for future research, such questions can be found below. Questions raised are intended to aid in the development of future

research studies to further strengthen and investigate farm family succession across the agricultural sector.

Due to the lack of current research on succession and family business planning, the possibilities are endless and can vary with operation to operation all across the country. Having said that, the first question raised is: What types of succession and transition planning framework will be utilized in the future? It will be interesting to see how various frameworks and guidelines evolve over time and if there will be a standard and acceptable method across the industry. Continuing to monitor and review frameworks suitable for farm family succession will only create greater opportunities for the future.

Secondly, it would be interesting to see how the data will be collected and planning process compare over similar sized operations over time. One could also research similar sized operations to see if they have similar strengths, weaknesses, opportunities and threats along with family dynamics that contribute to the process as a whole. In previous experience, many families have their own issues, but it is how they work through them and overcome them that will allow them to thrive.

Lastly, researching and analyzing the habits and objectives of farm families as it relates to institutional change would be interesting to evaluate overtime. Will future institutional change follow in such that North portrayed and act upon the theory of the firm?

There are a number of possibilities for further research that any large or small farm family could pursue to adequately fit the needs to transition to the next generation. Learning from other farm family operations, the good and the bad, will allow future transitions to plan for the future.

7.3 Final Reflections

The findings from this research suggest that succession and transition planning for XYZ Farms would positively benefit both current and future owners of the operation. The overall objective of this research was to evaluate and create a feasible transition plan for XYZ Farms, while minimizing the social and economic costs associated with farm business succession. The specific research objectives and how they were met are as follows:

The study identified and assessed a succession planning framework as important for farm families to possess when looking to build and begin their own successful transition process. This was found through various research and discussion with current and future owners of XYZ Farms. The study concluded that utilizing Schurle et al.'s *Transition Planning: 12 Steps to Keep the Family Farming* framework is best suited for the operations succession and transition planning. The coordination and alignment of communication, preparation and planning is an ongoing task that the operation will set forth to accomplish.

The establishment of XYZ Farm's current state within the scope of the framework identified has been developed and is currently in process. For the purposes of this study and the current state of the operation, the first eight steps of the planning framework have been outlined and discussed with current and future owners. After adopting Schurle et al.'s 12 step framework, it was assessed under the theory of the firm and concluded the framework and current state of XYZ Farms is designed to further the main objective of the original creators, keeping the operation a family farm for many generations to come. Although current and future owners are each motivated differently, their long run motivation and dedication to overcome the stress involved in family farm succession, will outweigh the short-run fear and unknown risks associated with the succession process.

The development of a feasible transition plan for the transfer of ownership from the operation's current to the future owners is put in place by this research study. This study allowed for the open communication and discussion regarding the family farm's current state and laid out the responsibilities and management roles. Although noted above, it is recommended that the operation set a specific timeline for transition. This includes evaluating the operation's financial feasibility, developing a business plan and discussing estate and retirement planning with all involved.

Revisiting the original research question, what will be the most appropriate plan for ownership transition given the current state of the operation? The findings indicate and identify a platform for XYZ Farms to evaluate and utilize. Based on the information supplied, it is recommended that the operation transition to the future generation by utilizing the platform identified; ensuring a sound transition plan is put in place and understood before action is taken. The transition of the operation may not be in the immediate future, but it is in the future none the less.

The combination of ongoing communication between future and current owners, evaluation of financial information and a constant SWOT analysis of the operation, lend credibility to the rise and importance of farm family succession planning. Transitions will happen regardless if those involved are prepared or not. The result in a successful transition plan, if accomplished by utilizing formal business planning and effective communication, can provide XYZ Farms with framework and guidance for another generation to come aboard.

WORKS CITED

- Arbuckle, Jr., J. Gordon. 2014. "Attitudes Toward Cover Crops in Iowa: Benefits and Barriers." *Iowa Farm and Rural Life* 1-12.
- Bareither, Karl. 2003. *Planning a Family and Business Legacy*. Avila Beach: FBR Publishing.
- Breeze, Claudia. 2008. *Address generation gap when succession planning*. 07 21. Accessed 03 25, 2017. <http://activerain.com/blogsvieview/603092/address-generation-gap-when-succession-planning>.
- Eisenhardt, Kathleen M. 1989. "Building Theories from Case Study Research." *Academy of Management Review* 14 no. 4: 532-550.
- Geske, Joel. 1998. "Iowa Agricultural Practices and the Environment." *Iowa Environmental Issues Series*. Iowa Association of Naturalists. 1-27.
- Hadley, Gregg. 2012. *The DuPont Analysis: Making Benchmarking Easier and More Meaningful*. July 09. <http://articles.extension.org/pages/11805/the-dupont-analysis-making-benchmarking-easier-and-more-meaningful>.
- Jones, Rodney. 2005. "Successful Family Business Transitions." *2005 Agricultural Lenders Conference*. Manhattan. 19.
- Jones, Rodney, and Sara Fogleman. 2005. "Farm an Ranch Strategic Planning (Visioning and Goal Setting)." *Farm Management Guide*, October: 4.
- Kaplan, Matthew, John Becker, Jon Nussbaum, and Anne O'Sullivan. 2008. "Farm Succession Planning - Conversations to Strengthen Farm & Family." *Pennsylvania State University*. <http://aese.psu.edu/extension/intergenerational/program-areas/farm-families-continuity-planning/farm-succession-planning>.

- Langemeier, Michael R. 2011. "Financial Ratios Used in Financial Management." *Kansas State University*, November: 4.
- Lichty, John, interview by Kayla Lichty. 2017. (January 15).
- Lichty, Pat, interview by Kayla Lichty. 2017. (January 15).
- Lichty, Randy, interview by Kayla Lichty. 2017. (January 15).
- North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- Plastina, Alejandro. 2016. "Financial Performance Measures for Iowa Farms." *Ag Decision Maker*, January: 8.
- Plastina, Alejandro. 2017. "Estimated Costs of Crop Production in Iowa - 2017." *Ag Decision Maker* 1-20.
- Plastina, Alejandro. 2016. "Iowa Farm Financial Conditions in 2015." *Ag Decision Maker* 1-15.
- Schnepf, Randy. 2017. "U.S. Farm Income Outlook for 2017." *Congressional Research Service* 1-36.
- Schurle, Bryan, Rodney Jones, and Duane Hund. 2012. "Transition Planning: 12 Steps to Keep the Family Farming." *Kansas State Universtiy* 4. http://www.k-state.edu/kams/succession/basics/Transition_Planning-12_Steps.pdf.
- Simon, Herbert A. 1978. "Rationality as a Process and as a Product of Thought." *The American Economic Review* 68 no. 2: 1-16.
- Thomas, Craig. 2013. *Farm transition and succession - Why bother?* 02 17. Accessed 03 01, 2017. http://msue.anr.msu.edu/news/farm_transition_and_succession_why_bother.

Yin, Robert K. 1994. *Case Study Research: Design and Methods*. Sage Publishing.

Yin, Robert K. 1981. "The Case Study Crisis: Some Answers." *Administrative Science Quarterly* 26 no.1 : 58-65.

APPENDIX A: XYZ FARM PROFIT AND LOSS STATEMENT

XYZ Farm			
Profit & Loss Statement			
Farm Fiscal Year runs from March 1 to February 28			
	2016 - 2017	2015 -2016	2014 - 2015
Income			
Sales	\$1,296,768.00	\$1,347,290.00	\$1,371,813.00
Services	\$83,411.75	\$65,366.00	\$79,948.00
Other Income	\$38,812.00	\$55,117.00	\$90,980.00
Total Income	\$1,418,991.75	\$1,467,773.00	\$1,542,741.00
Expenses			
Accounting	\$450.00	\$434.00	\$2,196.00
Misc	\$34,908.24	\$37,659.00	\$41,087.00
Wages, IRA	\$155,925.71	\$160,828.00	171427
Tax	\$41,425.73	\$52,189.00	\$46,243.00
Employee benefit	\$21,680.36	\$18,795.00	\$19,650.00
Feed, cattle expense	\$72,208.48	\$86,342.00	\$100,492.00
Hire of Equipment	\$17,656.77	\$29,016.00	\$20,697.00
Insurance	\$40,451.02	\$84,878.00	\$24,631.00
Interest	\$4,255.66	\$7,858.00	\$2,822.00
Fert, herbicide	\$207,566.46	\$125,984.00	\$157,815.00
Office Supplies	\$1,500.75	\$1,484.00	\$1,372.00
Contributions	\$2,935.00	\$3,024.00	\$2,567.00
Seed	\$120,649.87	\$97,360.00	\$95,756.00
Repairs & Maintenance	\$30,422.77	\$34,438.00	\$42,262.00
Fuel and oil	\$36,360.63	\$41,580.00	\$50,844.00
Subscriptions	\$7,649.88	\$7,073.00	\$2,081.00
Utilities	\$7,655.25	\$10,294.00	\$10,122.00
Rent	\$233,590.50	\$224,843.00	\$255,820.00
Cattle Purchased	\$242,168.70	\$327,987.00	\$403,851.00
Property Taxes	\$23,634.00	\$0.00	\$21,130.00
Total Expenses	\$1,303,095.78	\$1,352,066.00	\$1,472,865.00
Profit / (Loss)	\$115,895.97	\$115,707.00	\$69,876.00

APPENDIX B: XYZ FARM BALANCE SHEET

XYZ Farms Balance Sheet			
Current Assets	28-Feb-17	28-Feb-16	28-Feb-15
Cash & checking accounts	\$ (19,338.00)	\$ (48,140.00)	\$ (30,886.00)
Farm Credit Stock	\$ 1,000.00	\$ 2,000.00	\$ 2,000.00
Market Cattle	\$ 388,040.00	\$ 439,281.94	\$ 601,341.00
Corn	\$ 271,950.00	\$ 271,516.00	\$ 234,432.00
Soybeans	\$ 56,000.00	\$ 61,551.00	\$ 61,118.00
Other Crops	\$ 14,900.00	\$ 12,000.00	\$ 9,500.00
Prepaid Expenses	\$ 280,427.00	\$ 220,882.00	\$ 235,927.00
Condo Grain Storage	\$ -	\$ 9,451.00	\$ 10,597.00
Total Current Assets	\$ 992,979.00	\$ 968,541.94	\$ 1,124,029.00
Intermediate Assets			
Machinery/Equip. & Buildings	\$1,071,030.00	\$ 945,400.00	\$ 982,100.00
Deferred Patronage Dividends	\$ 49,056.00	\$ 49,056.00	\$ 49,056.00
Total Intermediate Assets	\$1,120,086.00	\$ 994,456.00	\$ 1,031,156.00
Long Term Assets			
Land - 165 Acres	\$ 899,250.00	\$ 866,250.00	\$ 825,000.00
Loan - Bob Doe	\$ 131,000.00	\$ 180,450.00	\$ 180,450.00
Loan - C. Doe	\$ 2,671.00	\$ 4,171.00	\$ 4,171.00
Loan - Cl. Doe	\$ 20,000.00	\$ 20,000.00	\$ -
Total Long Term Assets	\$1,052,921.00	\$ 1,070,871.00	\$ 1,009,621.00
Total Assets	\$3,165,986.00	\$ 3,033,868.94	\$ 3,164,806.00
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Operating Note - US Bank	\$ 22,866.05	\$ 106,038.00	\$ 344,500.00
Operating Note - USDA C.C.C.	\$ 105,168.29	\$ 93,500.00	\$ -
Total Current Liabilities	\$ 128,034.34	\$ 199,538.00	\$ 344,500.00
Intermediate Liabilities			
Operating Note - JD Finance - Combine	\$ 116,500.00	\$ -	\$ -
Total Intermediate Liabilities	\$ 116,500.00	\$ -	\$ -
Long Term Liabilities			
	\$ -	\$ -	\$ -
Total Long Term Liabilities	\$ -	\$ -	\$ -
Total Liabilities	\$ 244,534.34	\$ 199,538.00	\$ 344,500.00
Net Worth	\$2,921,451.66	\$ 2,834,330.94	\$ 2,820,306.00
Total Liabilities + Net Worth	\$3,165,986.00	\$ 3,033,868.94	\$ 3,164,806.00

APPENDIX C: XYZ FARM STATEMENT OF CASH FLOW

Farm XYZ			
Statement of Cash Flows			
3/1/2017			
	Period	Period	Period
	03/01/2016 to 02/28/2017	03/01/2015 to 02/28/2016	03/01/2014 to 02/28/2015
BEGINNING CASH ON HAND	(17,254.25)	8,056.00	(7,690.54)
ADD: CASH RECEIPTS			
Cash Sales	1,418,992.00	1,467,773.00	1,542,741.35
Loan or Other Cash Injection	-	-	-
Interest Income	3,443.00	3,443.00	-
TOTAL CASH RECEIPTS	1,422,435.00	1,471,216.00	1,542,741.35
LESS: CASH PAYMENTS			
<u>COST OF GOODS SOLD:</u>			
Crop/Livestock Input Expenses	622,736.00	632,549.00	742,755.00
Salaries-Direct	133,767.00	122,707.00	157,239.00
Payroll Taxes and Benefits-Direct	71,128.00	65,884.00	69,820.00
Supplies	30,781.00	10,668.00	16,806.00
Other Costs	1,687.00	1,346.00	8,368.00
Sub-Total Cost of Goods Sold	860,099.00	833,154.00	994,988.00
<u>OPERATING EXPENSES:</u>			
Machine Repair	30,423.00	34,438.00	42,262.00
Fuel and Oil	36,361.00	41,580.00	50,844.00
Machine Hire	17,657.00	29,016.00	20,687.00
Rent Expense	233,591.00	224,843.00	255,820.00
Building Repairs, etc.	18,550.00	36,099.00	22,837.00
Charitable Contributions	2,935.00	3,024.00	2,567.00
Dues and Subscriptions	7,650.00	7,073.00	2,081.00
Meals and Entertainment	6,814.00	7,096.00	6,874.00
Drying/Storage of Grain	3,750.00	10,630.00	-
Office Supplies	3,474.00	4,475.00	4,839.00
Professional Services - Legal, Accounting	450.00	434.00	2,196.00
Utilities	5,683.00	7,303.00	7,057.00
Sub-Total Operating Expenses	367,338.00	406,011.00	418,064.00
<u>OTHER EXPENSE PAYMENTS</u>			
Interest Expense	4,256.00	7,858.00	2,822.00
Insurance Expense	40,451.00	84,878.00	24,631.00
Income Tax Expense	7,322.00	20,162.00	11,230.00
Property Tax Expense	23,634.00	-	21,130.00
Cash Disbursements to Owners	-	-	-
Sub-Total Other Expense Payments	75,663.00	112,898.00	59,813.00
TOTAL CASH PAYMENTS	1,303,100.00	1,352,063.00	1,472,865.00
NET CASH CHANGE - Inflow (Outflow)	119,335.00	119,153.00	69,876.35
CASH POSITION (year end)	102,080.75	127,209.00	62,185.81