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PRODUCER PERSPECTIVES IN STARTING THE FARM TRANSITION PROCESS

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Abstract:

Research suggests the low rates of success in intergenerational transfers of family farms stem from inadequate estate planning, insufficient capitalization of farm businesses, and a failure to prepare the next generation properly for their new roles. Providing farmers the best possible chance of a successful transition of their operation to the next generation requires a process holistic in its approach to business succession and stakeholder communication. This perspective is the essence of the five step “transition planning” approach. However, many producers are intimidated by the challenges of transition planning and such fear may prevent them from even beginning the process. To address this concern, participants in a series of farm transition planning workshops participated in two exercises designed to elicit stakeholders’ perspectives of transition challenges and their goals in the first year of the transition planning process. The results of these exercises show that many farm stakeholders share a number of the same needs, wants, hopes, and fears, and that with some basic educational tools these producers can embrace the fundamentals of that process to form a sound start to their plan. These results suggest the barriers to effective transition planning may not be as formidable as many farmers fear.

Keywords: Succession, transition, planning, communication

1. Introduction

Legacy. Heritage. Tradition. Values. These words quickly come to mind when one thinks about the importance of passing the family farm to the next generation. Farmers share a unique connection to their operations, and that connection carries a nearly-instinctive drive to make sure the operation successfully passes to the next generation. However, the data suggest that farmers, ranchers, and other small business owners are failing in that aim. Only about 30 percent of small family-owned businesses (including farms and ranches) survive their transition from the founding generation to a second generation, 12 percent survive to a third generation, and only 3 percent survive to a fourth generation (Family Business Institute, n.d.).

Why are success rates of farm transition so low and what can be done to improve them? This article presents the challenges of farm transitions and the basics of a successful farm transition planning process before examining the results of two transition exercises conducted at a series of farm transition planning workshops. These results suggest there

may be more common ground among farm stakeholders than farmers realize, and that producers can begin the first steps of farm transition planning with the aid of some basic educational tools.

1.1. Why do so many farm transitions fail?

Why does successfully transitioning the farm business to the next generation pose such a challenge? One author found three principal obstacles to farm transfer success: (1) inadequate estate planning, (2) insufficient capitalization of the farm enterprise, and (3) failure to prepare the next generation properly for their roles after the transition (Spafford, 2006).

1.1.1. Threats posed by inadequate estate planning

“Failing to plan is planning to fail.” While parents often cite this to children refusing to plan for the future, many parents would do well to hear it themselves. A 2007 survey revealed that 55 percent of U.S. adults did not have a will (Lexis-Nexis 2007). Other research suggests that the numbers are far worse within the agricultural industry, with 64 percent of U.S. farmers and ranchers having no form of estate plan (Spafford 2006).

Inadequate estate planning directly affects the survivability of the farm in that most U.S. intestate succession statutes (triggered when a property owner dies without a will or other estate allocation tools) may allocate property in equal cotenancies among the decedent’s descendants. This means the farm asset base is at great risk of being torn apart unless all the descendants are in complete accord as to their continued use in the farm enterprise.

1.1.2. Threats posed by insufficient capitalization

Summaries from two of the largest U.S. farm-management databases suggest that, for operations supported primarily by on-farm income (as opposed to operations where the majority of income comes from off-farm employment), approximately \$2 million of assets under management are needed to support each full-time equivalent (FTE) worker on the farm (Illinois Farm Business Association n.d., Kansas Farm Management Association n.d.). Many farms simply do not have this level of economic productivity or asset base, and that fact may become starkly clear after the death of the principal operator or when a second generation tries to return to the farm and operate it alongside the founding generation.

Similarly, allocating farm assets to off-farm heirs without a comprehensive farm

transition plan can cause financial and familial challenges for those on the farm. This dilemma is summarized in the comments provided by a FARMTRANSFERS survey respondent: “My dad spent his entire life paying off my uncles. Now I’ll spend the rest of my life paying off my brothers” (Baker, 2013).

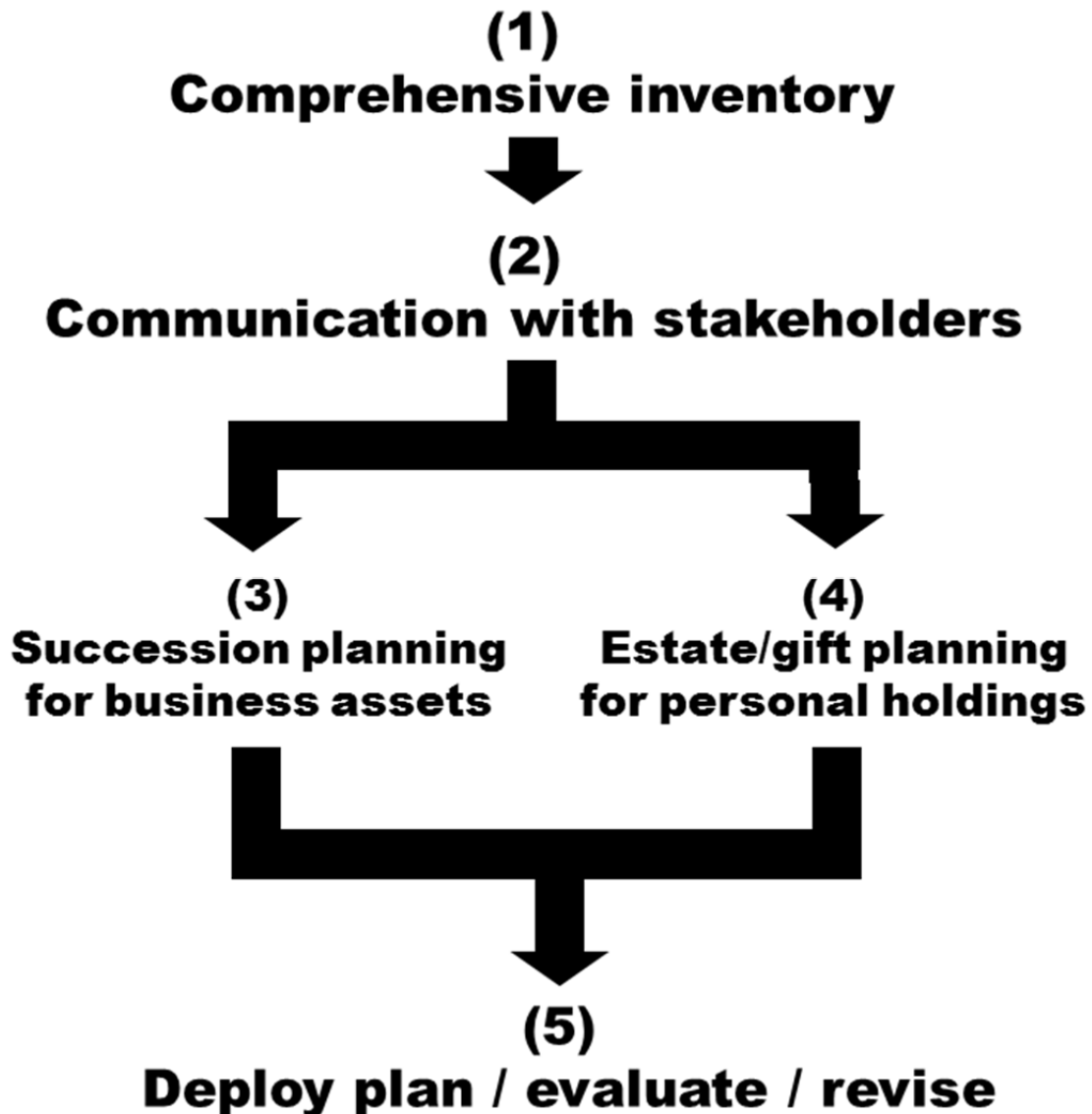
1.1.3. Threats posed by failure to prepare the next generation properly

Farming and ranching are complex, technical enterprises that must work in a risk environment unlike almost any other industry. Part of the problem in successfully transitioning a farm or ranch to the next generation, then, comes from making sure that the successors have all the skills needed to successfully operate the business. Even if a potential successor grew up on the farm, they may have spent several years (and, in many cases, decades) away from the farm in off-farm employment. Indeed, the failure of the founding generation to devote significant time and resources in the management and leadership development of the next generation has been cited by multiple experts as a principal cause for the high failure rate of farms, ranches, and other small businesses (Spafford 2006).

1.2. A better way: the transition planning approach

Overcoming these challenges and providing farmers the best possible chance of a successful passing of their farm to the next generation requires an approach holistic both in its view of the farm business and in its approach to stakeholder communication. Rather than focusing solely on the disposition of assets at the client’s death as in an “estate” planning” approach, the transition planning approach incorporates both estate planning and business succession planning while engaging all farm stakeholders.

Figure 1: Transition planning approach



The transition planning approach begins with the initial step of preparing a comprehensive inventory of the farm enterprise. While this involves a traditional inventory of farm assets (including land resources, equipment, stored commodities, and financial assets), it also includes identification of all the farm’s “stakeholders” (those with an economic or emotional connection to the farm), important business relationships (including vendors, customers, and advisors), and the human resources of the farm.

The next step in the process is to begin a continuing dialogue with all of the farm’s stakeholders regarding the current state of the farm and seeking the input of the

stakeholders with respect to the means by which the farm will move from its current state to the configuration needed to meet its future needs. This step of the process continues concurrently with all subsequent steps as well.

Once the dialogue has been established, the stakeholders examine their respective needs and work with consultants and professionals to determine how the farm must evolve to meet the agreed-upon goals of the transition plan. This takes place in a simultaneously-developed business succession plan determining how business ownership, management, and economic participation will change over time and an estate and gift plan designed to transfer the personal holdings of the stakeholders consistently with the business plan and the overall transition goals.

After the business and estate plans have been formulated, it is time for the plan to be implemented. At its best, this phase of the transition planning process will reflect the principles of continuous process improvement in a cycle of “plan, do, check, act.” The transition plan’s first phases will be implemented, and the stakeholders will periodically review the plan to see if it is accomplishing its goals (as well as re-evaluating those goals). If adjustments are needed, they can be determined and implemented.

1.3. Communications in transitions planning

Family farm managers are entrepreneurs, and therefore frequently are “doers” rather than “talkers.” However, a successful farm transition requires open, candid, and frequent communication with all farm stakeholders. In fact, research by leading business experts suggest there are three factors that correlate significantly with family business longevity: (1) frequent family meetings, (2) strategic planning, and (3) active boards of directors for the family business (Aronoff & Ward 2011).

However, a common perception is that business meetings are a “waste of time.” This perception likely stems from historical experiences involving poor meeting practices. Nevertheless, family business meetings can be a very effective tool to facilitate communication, coordinate work flow, and improve decision making. Another fear, particularly among farmers, is what that communication process can reveal. Dealing with these fears, and showing the positive opportunities of the transition planning process, is the focus of the exercises discussed below.

2. Perspectives on the Transition Planning Process

The prospect of the transition planning process may seem overwhelming or even intimidating to a farmer. The farmer may worry the open and honest conversations vital to a successful transition planning process may raise issues no one wants to confront or stir conflict. They might fear losing control or independence. They might even worry the other farm stakeholders do not share their values. Fearing the results of the process can lead to the almost natural result that the farmer simply postpones engaging in the process indefinitely. However, what if the fear of engaging in the transition planning process was – at least in part – unfounded? What if producers knew their needs, wants, hopes, and fears with respect to the transition planning process were shared by the other farm stakeholders?

2.1. The Farm Credit College Transition Workshops

In January of 2017, the authors provided two one-day workshops to members of the Farm Credit Illinois Cooperative. 181 farmers participated in the workshops, which involved five sessions in which each of the five basic steps in the farm transition process were laid out along with the challenges often encountered with each step and strategies for addressing those challenges. Workshop participants were also provided with a copy of the Farm Transition Workbook and directed to a Farm Transitions resource website for additional information and tools. These workshops were meant to provide a foundational understanding of the transition process and to equip the participants with the basic tools to help them start the process for their own agricultural operations.

During the workshops, two exercises were conducted during the workshop to assess stakeholder perspectives and perceptions of the participants on the transition planning process. Each exercise and its results are discussed in detail below. Before examining the results of these exercises, though, it is important to review some characteristics of the workshop participants. Those attending were invited by Farm Credit Illinois (a farm credit cooperative operating primarily in the southern half of the U.S. state of Illinois) which means the workshop participants were, at least in a small way, given an external prompt regarding the importance of the transition planning issue and an invitation to engage in the workshop as an initial step in the process. By opting to come and bringing their family members, the workshop participants also self-identified as producers with an above-average willingness to engage in the transition process.

2.2. Stakeholder Needs, Wants, Hopes, and Fears

At the beginning of both one-day events, however, the workshop attendees were divided into four groups and asked to self-identify which group best described their role with respect to the farm: 1) male principal owner-operator, 2) female principal owner-operator, 3) successor to the farm operation, and 4) spouse to the farm successor. These groups were selected as at least some research suggested the likelihood of varying perspectives among genders and positions of authority in the organization (Eggerichs 2004, Woodbury 2012).

Each group was then given a relatively simple prompt: “What are your needs, wants, hopes, and fears with respect to the transition of your farm?” The groups were instructed to compile their answers on provided blank posters and to report their results to the group at the end of the exercise. It was hoped the exercise would help everyone see the perspectives of the other groups. First, hearing perspectives of other stakeholders in similar positions to those of their own “other” stakeholders could provide insight on those perspectives to the participants. Second, seeing the differences in those perspectives could also help prepare participants for what they might encounter in their own transition discussions. Third, a group environment would allow stakeholders worried about possible negative reactions to their perspectives to make those perspectives known in a general and anonymous sense to their own family stakeholders present at the event.

After the event, the responses from all of the groups were combined by group and categorized as focusing on “economic,” “relationships,” or “values” concerns. Items reported by the groups were deemed to be correlated if they used the same or similar words, or if they expressed qualitatively similar statements.

2.2.1. Stakeholder “Needs”

Among the expressed “needs” of the stakeholder groups, the strongest correlations were among male principal owner/operators and successors (a group skewed slightly to males). Economic independence and consistent incomes emerged as common needs among these two groups. After these expressions, though, the groups began to diverge a bit, although the divergence was not unexpected. Male owner/operators indicated a need for retirement income support and continued productivity of the land, female owner/operators were concerned about finances, successors looked for consistency in the operation, and spouses of successors (a group skewed slightly to females) needed details

and information regarding the transition plan. Interestingly, the “needs” of the four stakeholder groups showed the least correlation compared to the “wants,” “hopes,” and “fears” expressions.

2.2.2. Stakeholder “Wants”

The “wants” expressed by all the stakeholder groups showed a very high correlation, with a number of concepts expressed across three of the four groups, and some expressed by all four groups. All four groups communicated the idea of maintaining a continuous and profitable operation and the preservation of family relationships, while three of the four groups communicated a smooth transition as a priority. Other ideas shared by two of the stakeholder groups (and not always along gender lines) were protection of the farm asset base, compatibility of the stakeholders roles, and respect for the work of previous generations.

2.2.3. Stakeholder “Hopes”

As with their expressed “wants,” the “hopes” of the stakeholder groups also showed significant correlation. All four groups expressed a hope for family harmony and the long-term continuation of the farming operation (with three of the four groups specifically using generational terms). Three of the four groups communicated the idea of farm growth. Indeed, it appeared there was far more in common among the groups than was different with respect to this category.

2.2.4. Stakeholder “Fears”

As with their expressed “hopes,” there was again a significant amount of correlation among the stakeholder groups’ fears as well. All four groups indicated a disruption in family relationships as a fear, and did so strongly, as revealed in the multiple different ways that fear was expressed (for example, “destruction of family relationships,” “family bitter,” “strife,” etc.). All four groups also expressed a fear of the loss of the farm. Financial hardship concerns were indicated by three groups, and two groups each indicated being confined to roles that were not a good fit for the stakeholder and feelings of “entitlement”

2.2.5. Conclusions from the “needs, wants, hopes, and fears” exercise

While one of the intentions of this exercise was to illustrate the different perspectives among stakeholder groups and how those perspectives could be addressed in the transition planning process, a much greater value may have been found in that the

exercise revealed that there was, in fact, far more held in common among the stakeholder groups than what was different. Farmers with some fear of starting the transition planning process can take a large measure of comfort from the fact that the stakeholders in their operation likely share a number of their needs, wants, hopes, and fears in this process, and such common ground can serve as an excellent foundation upon which to build progress.

2.3. Stakeholder goals for the first year of transition

A second exercise was presented to the workshop participants at the very end of each one-day workshop event. Each family was given a set of four post cards, and were asked to write each of their transition goals for each calendar quarter on a post card (one card for the first calendar quarter of 2017, one for the second quarter, and so on). These postcards were self-addressed by the participants and are to be mailed back to them at the end of each respective calendar quarter of 2017 as a prompt and accountability measure to help them assess their progress toward those goals.

2.3.1. The goal listing exercise

After reviewing all of the goals, it became clear that they readily lent themselves to five categories: 1) hold a meeting or discussion with stakeholders, 2) compile or review inventories and / or other financial information, 3) Create or update a will, trust, or other estate planning documents, 4) Identify and / or consult with professionals such as attorneys or accountants, and 5) identify goals, values, or other strategic principles. All of the goals were classified into these groupings and organized by calendar quarters. Reviewing these quarterly goals reveals much about the perspectives of the participants with respect to how they sequence their first steps in the transition process, and what they believe they can accomplish in the first year of the endeavor.

Table 1 – Participants’ Expressed Needs				
	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
	<ul style="list-style-type: none"> • Economic independence 		<ul style="list-style-type: none"> • Continue making a living off of farm 	
	<ul style="list-style-type: none"> • Reliable income to all involved • Support retired farmers/"farmers emeritus" • Maintain productive land 		<ul style="list-style-type: none"> • Maintain immediate family lifestyle 	
		<ul style="list-style-type: none"> • Finances 		
			<ul style="list-style-type: none"> • Avoid fire sale/debt • No drastic changes in farming practice 	
				<ul style="list-style-type: none"> • Estate plan • Planning • Details of operation and what you own • Data
	<ul style="list-style-type: none"> • Transfer responsibility smoothly 	<ul style="list-style-type: none"> • Plan for the transition 	<ul style="list-style-type: none"> • Given appropriate authority 	
	<ul style="list-style-type: none"> • Participation by all stakeholders 		<ul style="list-style-type: none"> • All involved remain flexible & sacrifice 	<ul style="list-style-type: none"> • Understand each other’s involvement
		<ul style="list-style-type: none"> • Communication with stakeholders 		<ul style="list-style-type: none"> • Communication
	<ul style="list-style-type: none"> • Equitable division of assets • Feel ownership/thrive 			
		<ul style="list-style-type: none"> • Re-evaluate wishes 		

Table 1 – Participants’ Expressed Needs (cont.)				
	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
		<ul style="list-style-type: none"> • Hope it keeps going on and on • Knowledge 		
			<ul style="list-style-type: none"> • A plan to work properly 	
			<ul style="list-style-type: none"> • Positive moral[s] and communication 	

Table 2 – Participants’ Expressed Wants				
	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
	<ul style="list-style-type: none"> • Farm continue[s] as operational unit • Continuous viable operation • Protect assets 	<ul style="list-style-type: none"> • Viable business 	<ul style="list-style-type: none"> • Farm remain[s] healthy/intact thru transition • Maintain w/o interruption 	<ul style="list-style-type: none"> • Profitable
			<ul style="list-style-type: none"> • To build/grow farm • Transition w/o excess debt leverage 	
	<ul style="list-style-type: none"> • Help young beginning farmer 			
				<ul style="list-style-type: none"> • Knowledgeable lawyer, CPA
	<ul style="list-style-type: none"> • Protection family / relationships maintained • Amicable transition to heirs and stockholders 	<ul style="list-style-type: none"> • Everyone speaking 	<ul style="list-style-type: none"> • Family relationships intact 	<ul style="list-style-type: none"> • Closeness of family
		<ul style="list-style-type: none"> • Simple hand-off 	<ul style="list-style-type: none"> • Gradual transition from one generation to next 	<ul style="list-style-type: none"> • Smooth transition
		<ul style="list-style-type: none"> • Compatibility 	<ul style="list-style-type: none"> • Parents' wishes respected 	
	<ul style="list-style-type: none"> • Son to continue operation 			
		<ul style="list-style-type: none"> • Communicate wishes (needs) • Speak your piece 	<ul style="list-style-type: none"> • G1 puts estate plan and business succession plan in place 	

Table 2 – Participants’ Expressed Wants (cont.)				
	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
		<ul style="list-style-type: none"> • Respected inheritance 		<ul style="list-style-type: none"> • Respectful
		<ul style="list-style-type: none"> • Knowledge • Involve farm kids • Entitlements 		
				<ul style="list-style-type: none"> • Fair to all • Fairness

Table 3 – Participants’ Expressed Hopes				
	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
		<ul style="list-style-type: none"> • Success in the business 	<ul style="list-style-type: none"> • Build / grow family farm • Buy new equipment 	<ul style="list-style-type: none"> • Farm grows
	<ul style="list-style-type: none"> • Want something from new administration 		<ul style="list-style-type: none"> • Hope like hell it works • \$7 corn :-) but seriously 	<ul style="list-style-type: none"> • Favorable tax laws
	<ul style="list-style-type: none"> • Stay in family • Everybody gets along - smooth transition 	<ul style="list-style-type: none"> • Family harmony 	<ul style="list-style-type: none"> • Maintain family relations 	<ul style="list-style-type: none"> • Keep family together • Family stays intact
	<ul style="list-style-type: none"> • Find good compromises 			<ul style="list-style-type: none"> • All investors / investments matter
	<ul style="list-style-type: none"> • Hope for good communication 		<ul style="list-style-type: none"> • G1 wants us to succeed 	<ul style="list-style-type: none"> • Respect of plan
values	<ul style="list-style-type: none"> • Continues on to several generations 	<ul style="list-style-type: none"> • Future generations stay connected 	<ul style="list-style-type: none"> • 3rd/4th generation show interest in farm as well 	<ul style="list-style-type: none"> • Love of farm
	<ul style="list-style-type: none"> • Fairness to all 			
				<ul style="list-style-type: none"> • Learn to work • Preserve homestead

Table 4 – Participants’ Expressed Fears

	Male Principal Owner/Operator	Female Principal Owner/Operator	Successor	Spouse of Successor
	<ul style="list-style-type: none"> • Losing the farm 	<ul style="list-style-type: none"> • Lose the farm 	<ul style="list-style-type: none"> • Cease of farm • Farm failure 	<ul style="list-style-type: none"> • Loss of farm
	<ul style="list-style-type: none"> • Financial [in]stability 	<ul style="list-style-type: none"> • Financial hardship 	<ul style="list-style-type: none"> • Financial problems • Selling ground 	<ul style="list-style-type: none"> • Financially having to sell
	<ul style="list-style-type: none"> • Taxation 			<ul style="list-style-type: none"> • Tax laws
	<ul style="list-style-type: none"> • Business and political risk 			
	<ul style="list-style-type: none"> • \$3 corn 		<ul style="list-style-type: none"> • \$2 corn 	
			<ul style="list-style-type: none"> • Change of lifestyle 	
	<ul style="list-style-type: none"> • Destruction of family relationships • Family divisions 	<ul style="list-style-type: none"> • End of family • Family bitter 	<ul style="list-style-type: none"> • Broken family • Ongoing family tension 	<ul style="list-style-type: none"> • Strife • Family division • Jealous
			<ul style="list-style-type: none"> • People get stuck in role that isn't best fit 	<ul style="list-style-type: none"> • Decisions too restrictive on next generation
values	<ul style="list-style-type: none"> • Worry that next operators won't be content 		<ul style="list-style-type: none"> • Entitlement 	
			<ul style="list-style-type: none"> • Drastic changes in farming practice 	

2.3.2. Results from goal listing exercise

As illustrated above, many participants recognized the need for communication with their stakeholders by making one or more meetings with those stakeholders a priority for the first year of their planning process. In fact, the meeting / discussion goal category was by far the most frequently listed goal by the workshop participants, with 58 quarterly goals (the next closest competitor was the create or update will or other estate planning documents with 36). Looking across all categories in the first quarter, it appears many participants had differing ideas about first priorities in the planning process.

Looking at the goals for the first quarter in comparison to the second quarter, an important relationship emerges. The number of goals falling under the meeting / discussion category is far and away at its largest in the second quarter, suggesting many families wished to take initial preparatory steps (which the responses suggest were collecting inventories and financial information, creating or updating estate planning documents, followed closely by consulting with professionals and identifying goals and values) so they could have informed discussions with their stakeholders.

In the third quarter, holding family meetings and discussions remained a high priority, with a close race among the other groups (with the exception of identifying goals and values, at only 5.71% of responses).

For the fourth quarter, the transition conversations remained important, but identifying goals and values (which included goals relating to setting strategic goals) now moved into the most prevalent spot, although only by a margin of 2.94% over holding a meeting or discussion). It should also be noted that, for some participants, the goal of having a meeting in the fourth quarter meant holding a second or even third meeting. The listed goals for the fourth quarter suggests many participants anticipate having at least some form of a plan in place for implementation, and also suggests that many participants view the first year as start to the process, and not the end.

Table 5: Participants' Transition Goals by Calendar Quarter

First Quarter	Responses: .90	
Hold meeting or discussion with stakeholders	16	30.77%
Compile or review inventories / financial information	11	21.15%
Create or update will / estate planning documents	10	19.23%
Identify or consult with professionals	8	15.38%
Identify goals and values	7	13.46%
Second Quarter	Responses: 44	
Hold meeting or discussion with stakeholders	19	43.18%
Create or update will / estate planning documents	10	22.73%
Compile or review inventories / financial information	8	18.18%
Identify or consult with professionals	4	9.09%
Identify goals and values	3	6.82%
Third Quarter	Responses: 35	
Hold meeting or discussion with stakeholders	12	34.29%
Create or update will / estate planning documents	8	22.86%
Identify or consult with professionals	7	20.00%
Compile or review inventories / financial information	6	17.14%
Identify goals and values	2	5.71%
Fourth Quarter	Responses: 34	
Identify goals and values	12	35.29%
Hold meeting or discussion with stakeholders	11	32.35%
Create or update will / estate planning documents	8	23.53%
Compile or review inventories / financial information	2	5.88%
Identify or consult with professionals	1	2.94%
Totals across all quarters		
Hold meeting or discussion with stakeholders	58	
Create or update will / estate planning documents	36	
Compile or review inventories / financial information	27	
Identify goals and values	24	
Identify or consult with professionals	20	

2.3.3. Conclusions from the goal listing exercise

Examining all of the submitted goals, both on an individual basis and collectively, suggests many of the workshop participants embraced a number of the concepts discussed in the presentation of the five-step transition planning process. Their goals showed an

intentional progression through the steps, and a recognition (as discussed above) of the on-going nature of the process, rather than it being a “once and done” event. Another encouraging sign was the predominance of the meeting and discussion goal among all families and throughout all quarters. Culturally, farmers may be reluctant to have family meetings for a number of reasons discussed previously, but the participants in the workshop hints at an embrace of the importance of an open and informed dialogue among all the farm stakeholders.

3. Conclusions and paths forward for farm transition planning

Transition planning is not for the faint of heart; it is a significant departure from the traditional model of estate planning. However, when implemented properly, it addresses the three most common reasons family farms fail to survive an inter-generational transfer. Further, it holds the opportunity to not only strengthen the family farm business, but to strengthen the family as well by opening lines of communication and engaging all farm stakeholders. As a result, these stakeholders can find themselves “bought in” to the transition planning process which can provide benefits well beyond a successful asset transfer.

While a group of approximately 200 farmers may not represent the entirety of farmers everywhere, the experiences with the participants in the Farm Credit College farm transition workshops indicate that many of the fears that prevent farmers from starting their transition journey may be unfounded, as the stakeholders participating in the workshops indicated what they held in common well outweighed their differences, particularly in regard to their views of the family farm and its future. Similarly, with those shared values and a modest amount of training, they were able to envision a sound beginning to their farm transition planning process. Together, these facts should embolden all farmers to begin building their own path to the future of their farm and their legacy.

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