



“Rich and Ready to Go” or “Stay and Grow”?

*A Succession Preparedness Study of
U.S. Farmers in the North Central
Region*

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Business Owner Exit

- Baby Boomer business owners are retiring in record numbers
- Less than 1/3 of first-generation businesses survive into the second generation.
- Businesses should act like profit maximizers; succession can alter those financial goals.
- Presence of an heir leads to enterprise growth/adaptation
 - Absence of an heir leads to decreasing emphasis on farm productivity (Inwood and Sharp, 2012)



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“Son, someday this will all be yours.
Or Wal-Mart’s.
Whoever pays Daddy the most.”

Why not Plan to *Succeed*?

- Farm *households* are not prepared for succession.
- Average age of the American farmer was 57.5 years in 2017 (National Agricultural Statistics Service)
 - Farmers (and other entrepreneurs) are working past pension age (Contzen et al., 2016)
- Only 33.75% of NCR farmers who inherited their farm business considered the transfer *very successful* (AgSEED Survey, 2023, Wiatt and Marshall)
 - Commonly cited causes for lack of success: Uncertain timeline, uncertain who would be included, damaged family relationships, and process was not as expected

How can farmers and their households be successful?

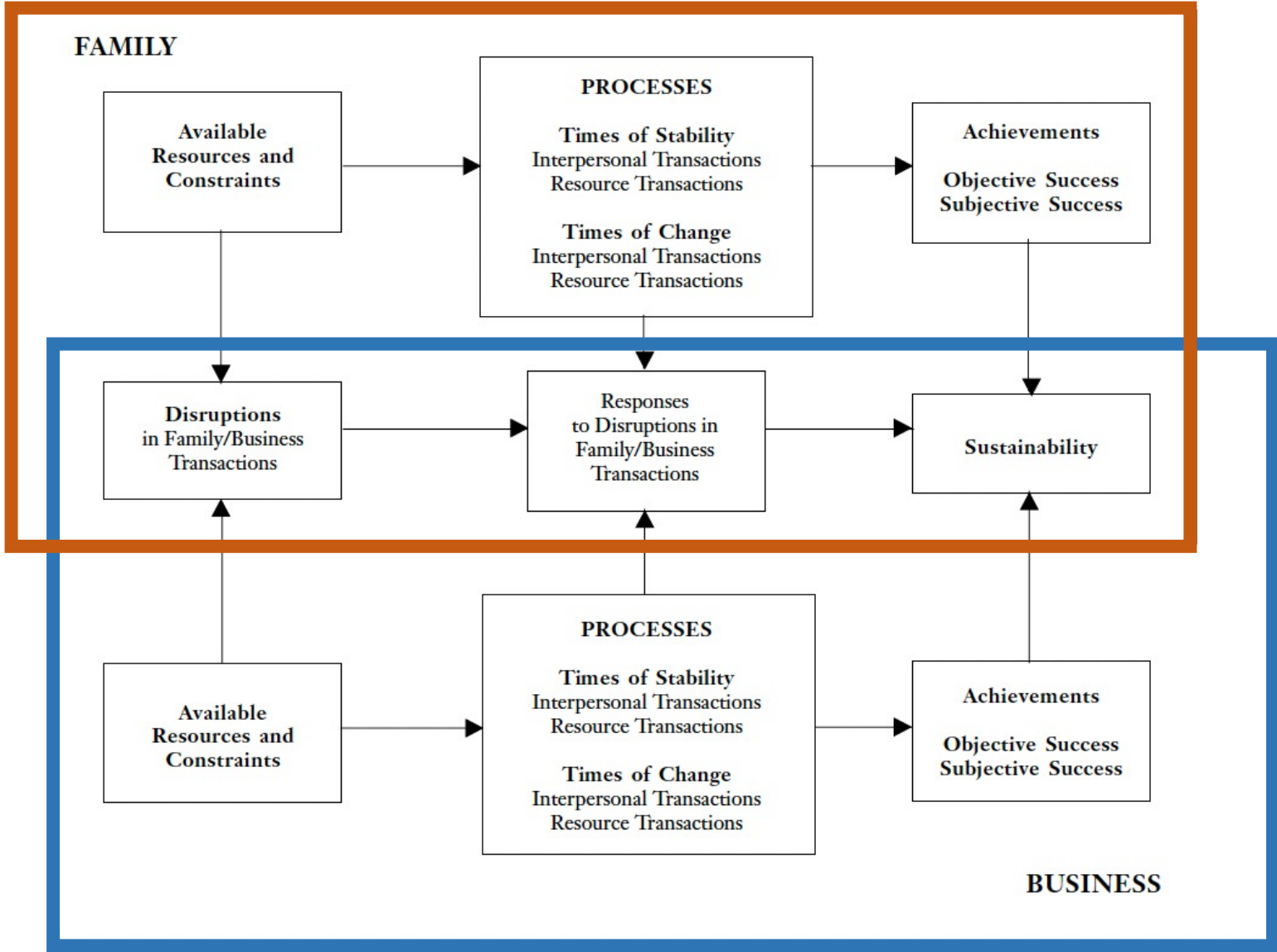
1. Keep the **business strong** enough and healthy enough to last into the next generation.

2. Continue a **healthy family** into the next generation.

Mean Farmer Age: When do you expect to retire?

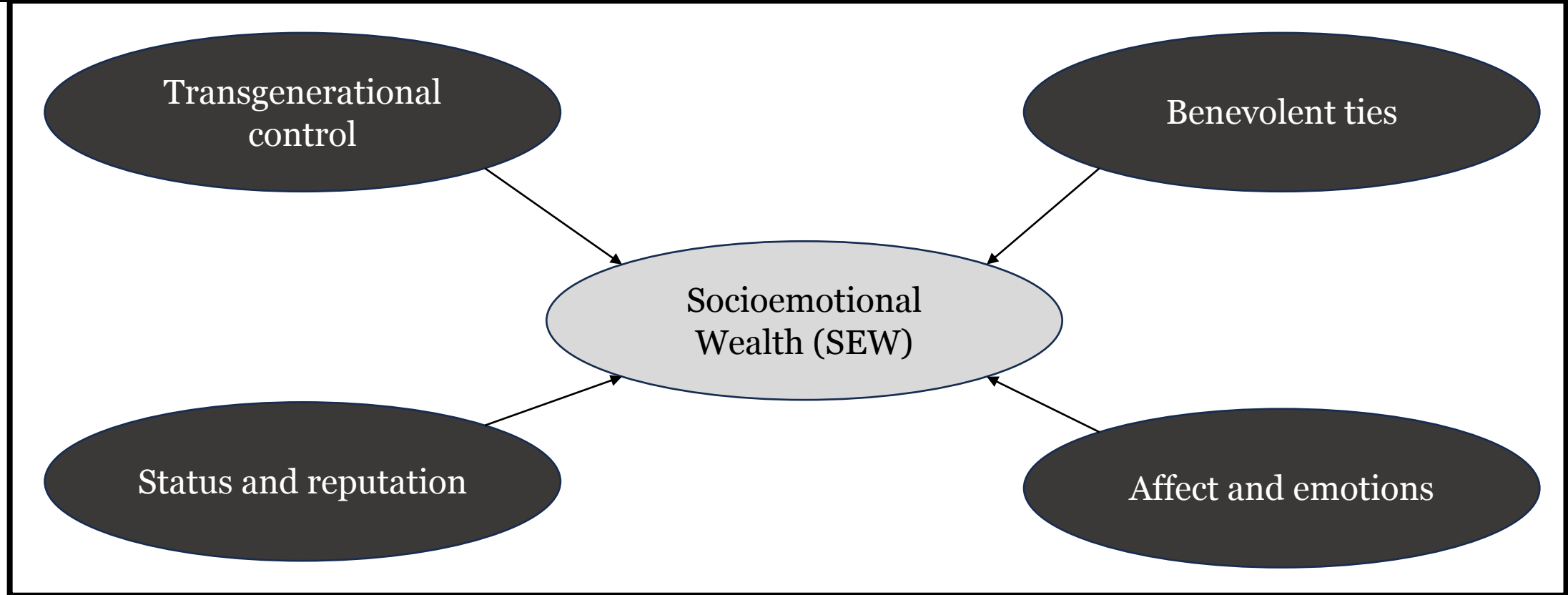


Sustainable Family Business Model



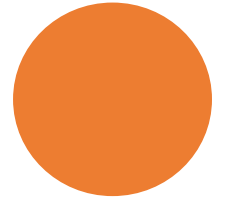
Four Dimensions of SEW

Socioemotional wealth – the stock of affect the family has vested in the firm

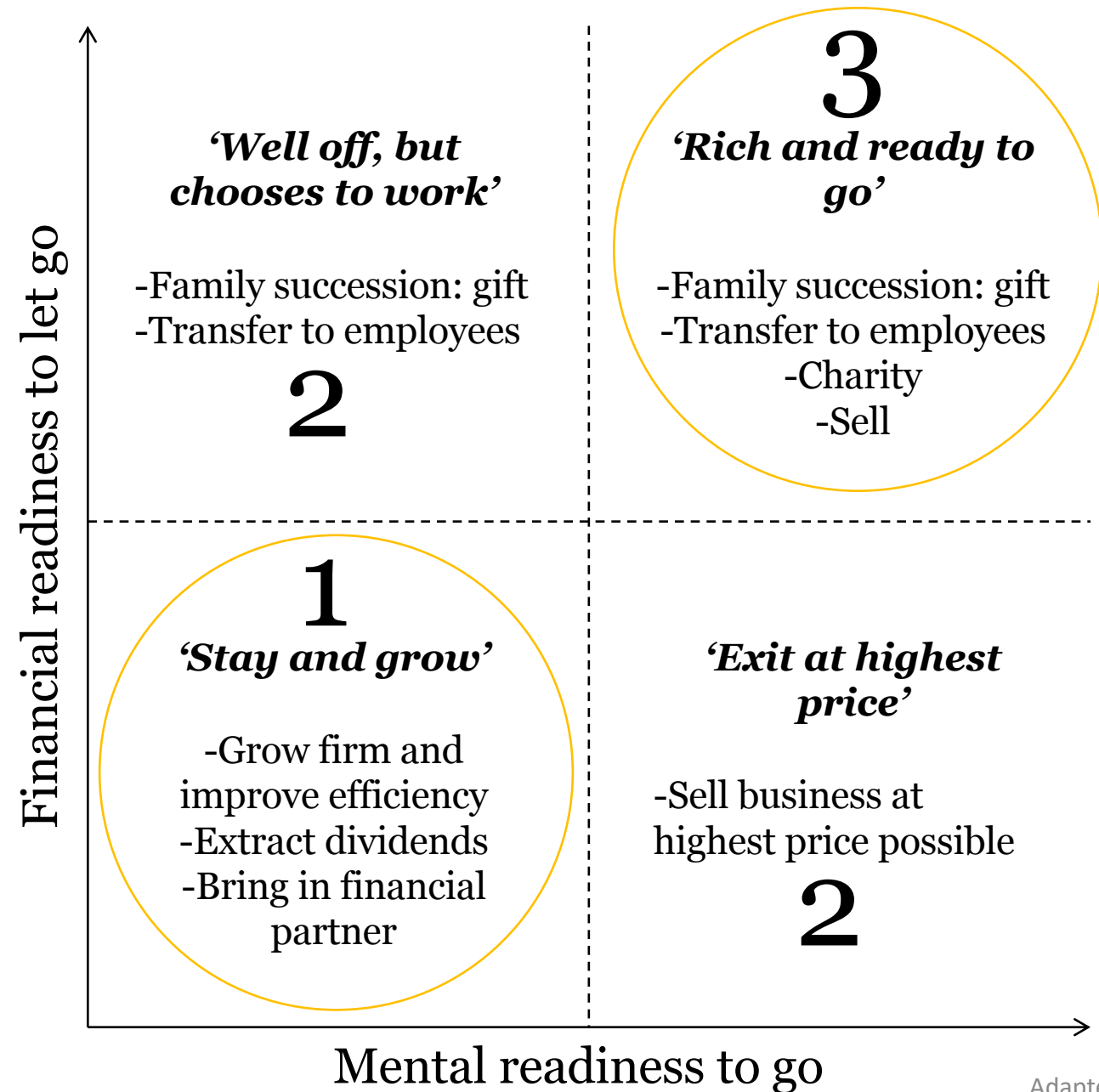


SEW Impacts Succession Decisions

- It's the *preservation* of SEW that is an essential concern for business owners.
- Owners may be willing to accept losses in SEW under certain conditions.
- It's assumed there is a tradeoff between the pursuit of financial wealth and the preservation of SEW.
- The *mental* readiness of the farmer to exit can be impacted by SEW.



Exit Quadrant: Incumbent Generation Considerations



Descriptive Statistics

	Stay and Grow (1) n=79		Reference Category (2) n=22		Rich and Ready to Go (3) n=67	
	Mean	Std. Err.	Mean	Std. Err.	Mean	Std. Err.
college graduate*	0.43	0.06	0.14	0.07	0.12	0.04
minority*	0.20	0.05	0.32	0.10	0.09	0.04
farmer age	43.87	0.90	51.23	2.74	56.40	1.07
houshold income (ln)	12.65	0.13	12.90	0.27	12.91	0.14
transfer if risky*	0.22	0.05	0.32	0.10	0.34	0.06
invest in business first*	0.41	0.06	0.36	0.10	0.39	0.06
SEW scale	4.29	0.04	4.53	0.02	4.28	0.03
enough retirement*	0.25	0.05	0.50	0.11	0.93	0.03

* Denotes that the category is the percentage of respondents that have the attribute in the category.

Farmer Livelihood and Wealth



Roughly 25% of farmers plan to transfer the business to a family successor even if it puts their own personal wealth and livelihood at increased risk.



Roughly 39% of farmers believe that family members should make it a priority to invest in the business first and then finance other personal investments.

Multinomial Logit Results

	Stay and Grow (1)		Reference Category (2)	Rich and Ready to Go (3)	
college graduate	0.73	0.79		0.25	0.93
minority	-0.41	0.67		-1.59*	0.81
farmer age	-0.07**	0.03		0.05	0.03
houshold income (ln)	-0.18	0.23		-0.14	0.26
transfer if risky	-0.27	0.68		0.05	0.71
invest in business first	0.97	0.65		1.39*	0.73
SEW	-7.10***	2.35		-8.42***	2.43
enough retirement	-0.33	0.60		3.05***	0.78
constant	38.42***	11.56		34.99***	11.76

Note: *p<.10; **p<.05; ***p<.01

Conclusions

- SEW is indeed important for farmers.
- As SEW increases, farmers are not mentally prepared to exit
- Continued link between household finances and exit process

SEW Viewpoint

Preserve SEW

Achieve sufficient financial performance to preserve SEW

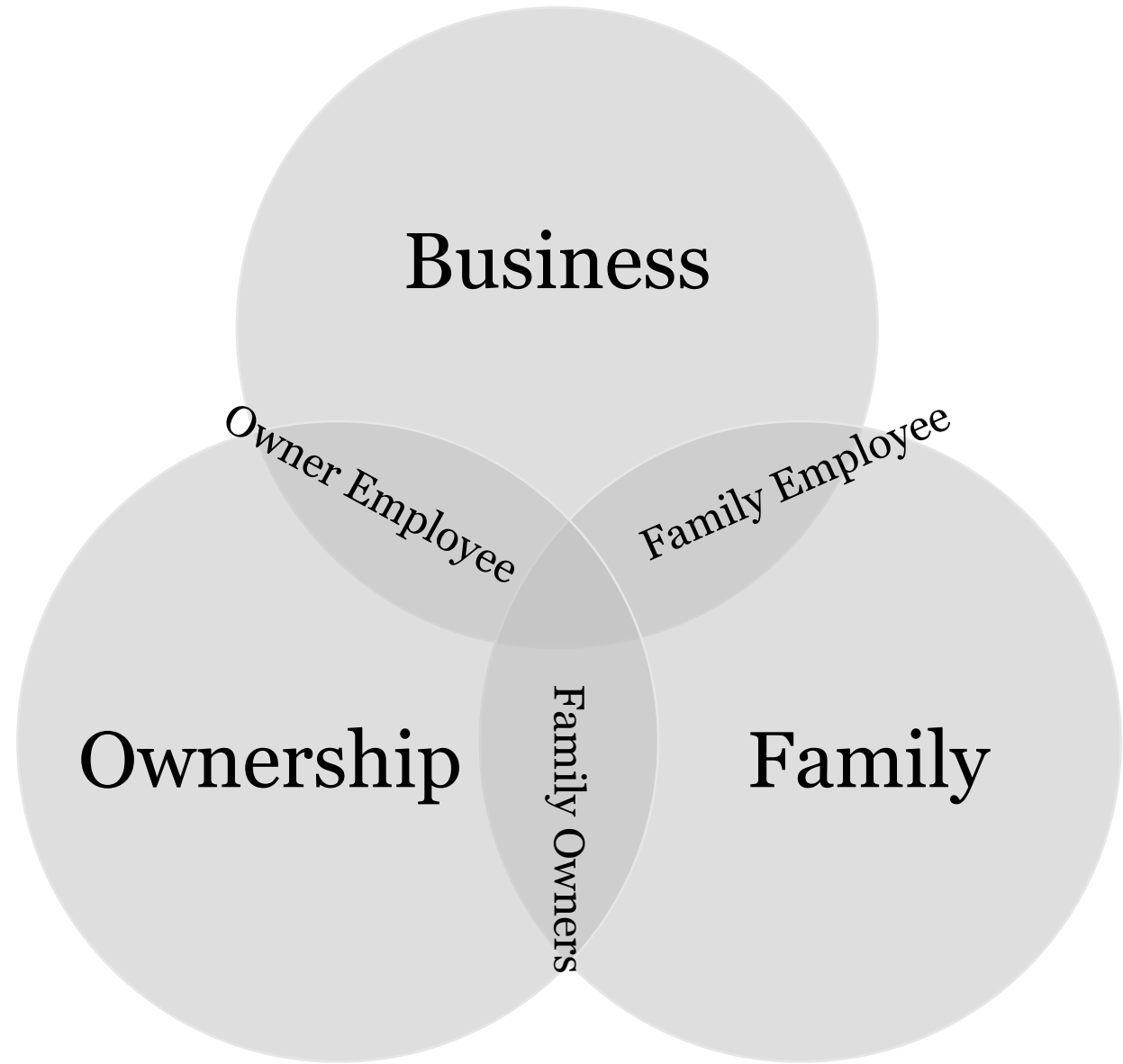
Financial wealth is input

Incentive to take risk is low

Choices based on past achievements

Three-Circle Model of the Family Business System

Source: Tagiuri and Davis, 1996





Implications

- How minority farmers are treated as farmers during their career has lasting implications into retirement.
 - Minority farmers are much less likely to be "rich and ready to go"
- Household financial, retirement, and investment preparation matter in farm succession.
 - Having enough financial resources to retire are critical.
 - Investing in the business first contributes to farmers feeling "rich and ready to go".
- Socioemotional wealth is vital to growing the business and being able/prepared to retire from the farm.
- Farmers (in general) do not feel emotionally prepared to retire from their operation.
 - Age matters



Eventually son, you'll be in charge of all this - assuming of course that I can't come up with any better alternative.

Toby Scammell, Medium.com

[purdue.ag/fambiz](https://www.purdue.ag/fambiz)

[extra slide] Variables Used for Analysis

college graduate	1 if farmer is a college graduate; 0 otherwise
minority	1 if the farmer is non-white and/or Hispanic/Latinx; 0 if white and non-Hispanic/Latinx
farmer age	age of farmer, continuous
household income (ln)	natural log of household income
transfer if risky	1 if farmer plans to transfer the business to a family successor even if it puts their personal wealth or livelihood at increased risk; 0 otherwise
invest in business first	1 if farmer believes that family members should make it a priority to invest in the business first before personal investments
socioemotional wealth scale	9-item scale with scores from 1 to 5, where 1 is the lowest inventory of SEW and 5 is the max inventory of SEW
enough retirement	1 if the incumbent generation has enough retirement savings/investments to retire; 0 otherwise