

# Succession Planning in Family Owned Farm Equipment Businesses

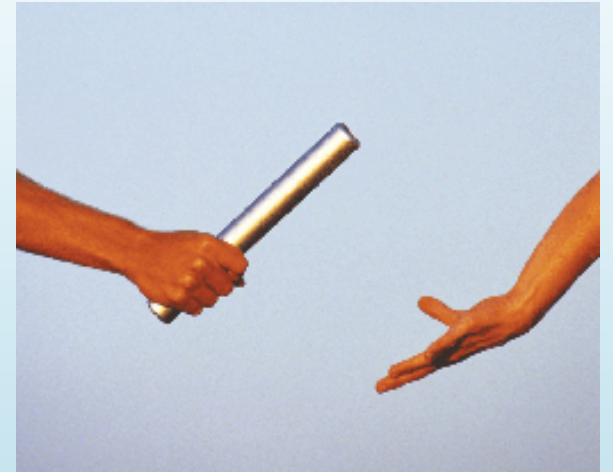


Challenges and Resources For Planning  
By: Jason Orton



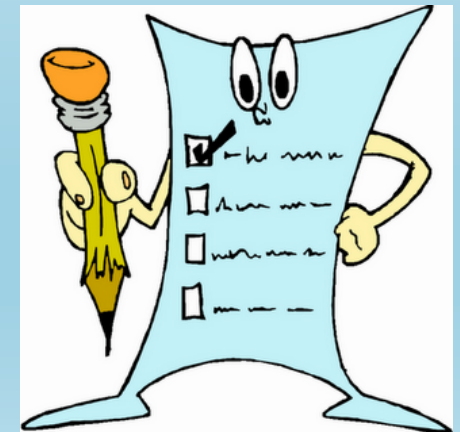
# Introduction

- Family Businesses Employ 62% of the U.S. Workforce  
(Astrachan & Shanker, 2003; Family Enterprise USA, n.d.)
- 69% of business owners plan to exit their businesses in the next 10 years (Exit Planning Institute, 2013)
- Only 16% of family firms had discussed and documented a plan for succession (Pricewaterhouse Coopers LLC., 2014).
- 70% of family businesses do not survive the transition from the first owner to the second generation (Giamarco, 2012).
- Purpose of study: Understand the rates of succession planning, how comprehensive those plans were, if those plans had been communicated, reasons why they were not planning, and preferred tools and resources to assist in planning.



# Methodology

- Quantitative, cross sectional survey using Survey Monkey.
- Members of the Far West Equipment Dealers Association (FWEDA). Covers 7 states.
- 244 businesses (139 owners) who are family owned farm equipment businesses.
- FWEDA: Distributed the survey link to its members who were owners and sent follow up reminders.
- Data analyzed to determine:
  - Do they currently have a plan and how comprehensive is it?
  - Was the plan communicated with key people?
  - Were key people involved in the creation of the plan?
  - Reasons why they were not planning.
  - Tools or resources they prefer.



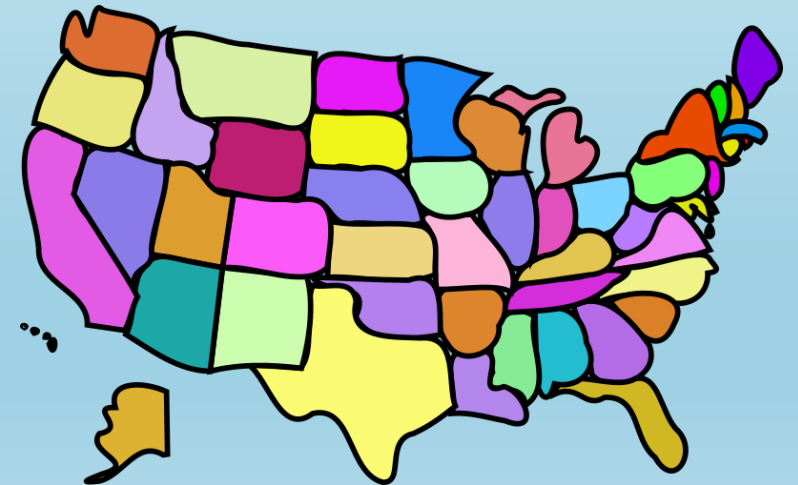
# Literature Review

- Section 1 Elements of a Comprehensive Succession Plan.
- Section 2 Frequently Cited Reasons Families Fail to Plan
  - Poor communication or problems communicating: Number one issue.
- Section 3 Tools and Resources to Assist In Planning



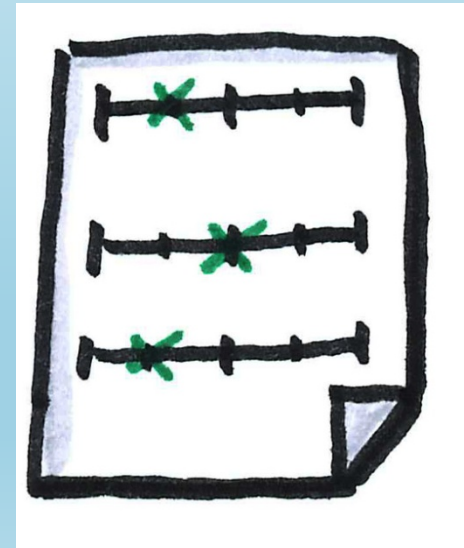
# Methodology-Subject Selection and Description

- Population Chosen:
  - 139 Owners of 244 Family Owned Farm Equipment Businesses
  - Diverse products sold
  - 7 Western States
  - Members of Far West Equipment Dealers Association (FWEDA)
- Why This Population
  - Diversity of geography and brands sold
  - Willingness of FWEDA to assist
  - Ease of dissemination of results to members of FWEDA
  - Usefulness of the data to FWEDA



# Methodology-Instrumentation

- Quantitative Cross Sectional Study:
  - Survey Monkey Online Survey Tool
    - Easy to use, user friendly, compiled the data.
    - Internal Logic: Answers to one question determined subsequent questions.
    - Security: SSL/TLS Encryption, IP address blocking, anonymity
    - Ability to create customize reports, download into Excel.
  - Survey was created based on information gathered in the literature review.
  - Likert Type Frequency Scale
  - Statistical Validity using Chi Squared Analysis



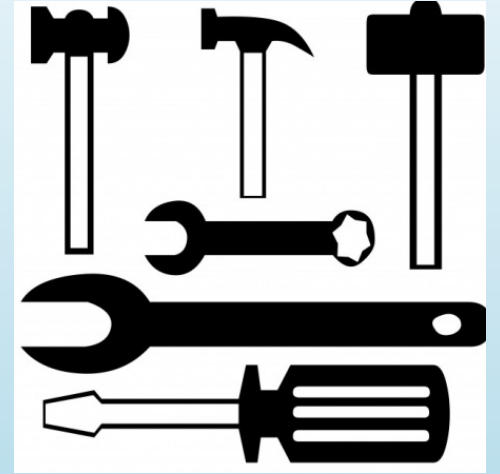
# Methodology-Data Collection Procedures

- Survey:

- 9 Questions sent to 139 owners on September 18, 2015
  - FWEDA sent a web link and cover letter to the members
  - Survey open for 2 weeks
  - Association sent reminder emails.

- Types of Questions

- Qualifying questions- Type of business
- If they currently had a plan
- Likert Type Frequency Scale. Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree.
  - Provides quantitative data on different degrees of opinion for each statement.
- Those without a plan: Questions to determine reasons why based on literature review.
- Those with a plan: Asked about comprehensiveness of plan, involvement of others, and communications of the plan
- All respondents asked about interest in tools or resources to assist in planning.
- Open ended question about their thoughts, feedback, or other information they felt like sharing.



# Methodology-Data Analysis

- Statistical Validity of Questions:
  - Chi Squared Calculator
  - Any score above 9.49 indicated validity with 95% or greater confidence level
  - Score below 9.49: Possible sampling error. Unusable.



# Methodology-Limitations

- Methodology Limitations:
  - Willingness of participants to complete the survey.
  - Approval of questions by Executive Committee of FWEDA
    - Advantages
    - Disadvantages
  - Time (2 Weeks)
    - Some potential respondents may have been out of town.
    - Limited ability to follow up with non respondents
    - Sample size limited to 7 state area.
  - Self Reporting
    - Varied definitions and frames of reference.
    - Feelings of participants on subject vary.



# Results-Data Analysis and Findings

- Respondents:
  - 29 total out of 139 owners invited to participate
    - 2 did not consider their business a family business. 27 Qualified (19% of population asked to participate)
    - 6 out of 27 did not have succession plans (4.3%)
    - Unable to determine the rate of planning based on responses.
- 6 Who Did Not Report Having A Plan
  - Only 4 answered questions about reasons why they did not have a plan.
  - Chi-Square scores below 9.49. Not statistically valid.
    - Owners may have felt too busy (Bradley & Short, 2008, Langrall, 2015)
    - Owners may have felt it wasn't a priority just like planning (Kirkwood & Harris, 2011)
    - Less likely to participate without a plan?
- Those reporting they had a plan
  - Felt succession plan was comprehensive: 63.64% Chi-square score: 15.273
  - Others participated in the creation of the plan: 86.34% Chi-square score: 21.182
  - Succession plan was communicated with others: 90.91% Chi-square score: 46.182
- Interest from all participants in tools or resources to assist with planning. 60.00%  
Chi-square score: 17.20



# Results-Open Ended Questions

- Mention of resources such as attorneys and accountants
- Estate Planner, Outside Agency, Company, Consulting Business
- One company was on 4<sup>th</sup> attempt. Finding success with outside help.
- Need to start early.
- Futility of planning.
- Guide or Checklist



# Conclusions and Recommendations-Limitations

- Unable to determine all reasons why these businesses may not plan.
- Time
  - Response rate
  - Type of instrument
  - Type of study
  - Smaller population sampled, limited geographic area
- Self Reporting Issues
- Author Involvement in the Industry, Bias & Independence
- Items not addressed
  - Differences in succession over multiple generations
  - All succession treated equally



# Conclusions and Recommendations-Important Findings

- Those with plans believe they are comprehensive: 64%
- Involved key people in the planning: 86%
- Plans communicated with key people: 91%
  - Pricewaterhouse Coopers LLC (2014) reported 16%
- 60% interested in tools or resources to help plan.



# Recommendations

- Recommendations for further research
  - True rate of those not having a plan?
  - Reasons why they are not planning?
  - Does self reporting accurately reflects reality?
  - Mixed methods to understand data
  - Repeat study with other associations to see if results are similar
  - What are the specific tools they prefer
- Recommendations for assisting family owned farm equipment businesses.
  - Checklist or guide
  - Make this study available
  - Education and training at meetings
    - Endorsed providers and associates
    - Convention and regional meetings
  - Directory of third party resources



# Conclusion

- Succession planning critical to the continuity of family businesses.
- Lack of current research in the family farm equipment industry
- Need for information on this industry segment:
  - Current state of planning in family owned farm equipment businesses.
  - How comprehensive are the plans that these businesses currently have in place.
  - Other key people involved in the planning
  - Plans communicated with key people
  - Reasons why they are not planning
  - Resources or tools they would like to help plan
- Literature review: Answers for family businesses in general
- Quantitative survey determined many answers for this industry
- Next steps include:
  - Further research to clarify details, understand more aspects of the problem
  - Repeat survey in other areas to see if results are the same in other areas
  - Training and education of owners of family owned farm equipment businesses
  - Resources such as checklists, guides, this study, provider list to assist these businesses.
- Objective: Increase rates of planning, keep businesses from going out of business when generations change.



# References

- Astrachan, J. H., & Shanker, M. C. (2003). Family Businesses' Contribution to the U.S. Economy: A Closer Look. *Family Business Review*, 16(3), 211-219. doi: 10.1111/j.1741-6248.2003.tb00014x
- Bradley, D. B., III., & Short, J. (2008). FAMILY BUSINESS SUCCESSION PLANNING. *Small Business Institute Research Review*, 35, 213-225. Retrieved from <http://sbaer.uca.edu/research/sbi/2008SBIPROCEEDS/23.pdf>
- Exit Planning Institute. (2013). State of Owner Readiness Survey, 1-10. Prepared By Chris Cooper, Ohio Employee Ownership Center, Kent State University. Retrieved from [http://www.exit-planning-institute.org/userfiles/files/24A%20-%20State\\_of\\_Owner\\_Readiness\\_EPI\\_September\\_2013.pdf](http://www.exit-planning-institute.org/userfiles/files/24A%20-%20State_of_Owner_Readiness_EPI_September_2013.pdf)
- Family Enterprise USA (n.d.). Numbers. Retrieved from <https://familyenterpriseusa.site-ym.com>
- Giamarco, J. (2012). The Three Levels of Family Business Succession Planning. *Journal of Financial Service Professionals*, 62(2), 59-69.
- Kirkwood, J., & Harris, P. (2011). Beyond Business: One local government's efforts to help business owners with succession planning. *Small Enterprise Research*, 18(2), 130-142. doi: 10.5172/ser.2011.18.2.130
- Langrall, C. (2015, February, 3). Failure to Plan Has a Price. *The Exit Planning Review*, 298. Retrieved from <http://forecastadvisors.com/library/exit-planning-review-archive/exit-planning-review-failure-to-plan-has-a-price/>
- PricewaterhouseCoopers LLC. (2014). Family Business Survey 2014 key findings: PWC. Retrieved from <http://www.pwc.com/gx/en/pwc-family-business-survey/key-findings.jhtml>