

succession planning knowledge management performance preparation

Who Will Fill the New Boots?

Examining the Use of Succession Planning in Farm Businesses

Brittany F. Whitmire

As baby boomers prepare to exit the workforce in unprecedented numbers over the next decade, the effects of knowledge loss and insufficient quantities of replacement workers are top concerns for all employment sectors.¹ According to the American Family Business Survey, more than half of the family firms in North America expect their chief executive officers to retire within the next ten years.² As vacancies arise, organizations will seek to fill empty positions. Organizations that systematically plan for succession will be better able to maintain their competitiveness and stability during transitional periods because they will have primed successors to provide continuity in leadership and a strong sense of organizational needs and future direction.³

Local governments, nonprofits, private companies, and other organizations all contend with the demands of succession. In the agricultural sector of the North Carolina economy, systematic succession planning has been rare or nonexistent. However, the agriculture industry, including production farming and agribusiness, is a key component of the state economy, affecting hundreds of communities and local governments. An earlier article in this issue (see page 26) describes the need for succession planning and the extent to which it occurs in

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demographics service mentoring **transition** evaluation objectives



North Carolina municipalities. This article introduces a customized application of succession planning that meets the unique needs of the state's farm businesses. The article identifies some of the challenges that North Carolina farm business managers face and provides an overview of succession planning. It also presents a comparative case study of three farms in one county to illustrate different stages of involvement in planning for inter-generational succession.

Succession Planning

Human resource management expert William J. Rothwell defines succession planning as “the process that helps ensure the stability of tenure of personnel” and “any effort designed to ensure the continued effective performance of an organization . . . by making provision for the development and replacement of key people over time.”⁴ The Governor's Office of Administration in Pennsylvania has developed a succession planning model that neatly captures the main steps used throughout the workforce and succession planning literature:⁵

- Determine what functions are required for a position and when it will be available
- Identify the initial competencies needed for the position and create a competency model for it
- Perform a “competency gap analysis”
- Design developmental opportunities for the competency model

In 1890, ninety-eight percent of the U.S. population lived on farms, whereas by 1990, farm residents constituted less than 2 percent of the total population.

- “Develop and maintain a talent pool”
- “Reassess and track overall progress and maintain [a] skills inventory”

North Carolina Agriculture

The U.S. Census definition of “farm” is any place from which \$1,000 or more of agricultural products was produced and sold, or normally would have been sold, during the census year.⁶ In 1890, ninety-eight percent of the U.S. population lived on farms, whereas by 1990, farm residents constituted less than 2 percent of the total population.⁷ For North Carolina this shift in demographics across a century, along with recent changes in tobacco policy, has created an increasingly difficult operating environment in which to position a successor. However, continuity of leadership in North Carolina's agricultural sector is critical for the economic health of the state. The agricultural sector, consisting of food, fiber, and forestry, contributes nearly \$63 billion annually to the economy, is credited for 1 of every 5 jobs in the state, and affects all 100 counties.⁸ Eighty-five counties are classified as rural, and nearly 30 percent of the total land area in the state is classified as farmland.⁹ Sustained performance of farm businesses in the state's economy therefore depends on current managers' willingness to strategically identify, select, train, and evaluate potential successors who can be groomed to manage in the next generation.

North Carolina farm facts. Farm businesses vary in size, scope, and workforce. From hogs to honey to turkeys to trout, North Carolina is one of the most agriculturally diverse states in the nation.¹⁰ The 2002 Census of Agriculture reports the following North Carolina farm facts:¹¹

- Individuals or families operate more than 90 percent of farm businesses as proprietorships, partnerships, and corporations.
- The average farm operator is about fifty-four years of age.
- Individually owned farm businesses average 136 acres, whereas partnerships and corporations average more than 500 acres.
- Sixty-seven percent of farms are less than 100 acres per unit. However, these small farms account for more than half of the farmland in the state.
- About 11 percent of principal farm operators are female.
- Estimated market values of land and buildings are \$518,719 per average farm (168 acres) or \$3,088 per acre.

A new era. Family-business industries undergoing significant changes need to select successors who can restructure the businesses or establish new ones in response to extant environmental conditions.¹² North Carolina farmers face this scenario today with respect to the state's historically top cash crop, tobacco.¹³ Declining demand for cigarettes and increasing competition from foreign

tobacco producers have resulted in reduced federal quotas and price supports in recent years, and tobacco has been surpassed by three other commodities.¹⁴ Despite these changes, the state is home to 7,836 tobacco farms, which produce more than \$630 million worth of the “golden leaf.”¹⁵

In 2004 another drastic change in agricultural policy arrived with the passage of Public Law 108-357, also referred to as the American Jobs Creation Act of 2004.¹⁶ This legislation included \$9.6 billion in compensation to tobacco quota owners and growers to terminate the support system that had been in place since 1946.¹⁷ Since the beginning of the 2005 crop year, no federal restrictions (quotas) on the production of tobacco have existed. Prices are expected to fall because of market pressure in the absence of federal support.¹⁸ Quota owners who receive payments through the buyout will use the funds for income replacement and will likely pursue one of the following strategic options for their farm businesses: make the transition to a new era of tobacco production, change from tobacco production to another agricultural enterprise, move from tobacco production to a nonfarming occupation, or retire.¹⁹

Given the uncertain effects of the new market environment for North Carolina producers following the tobacco quota buyout, every practical effort to assist in the stability and continuity of leadership in farm businesses should be taken. A recent survey revealed that less than one-fourth of the state’s farm operators have identified a potential successor to take over farm management, but just under one-third have discussed future plans with other family members or professional advisers.²⁰ Family businesses tend to have a high degree of commitment to achievement and perseverance derived from individual and family pride, as well as from tradition. Farm operators in family businesses may be an audience ready to embrace succession planning practices if the practices are communicated in a manner that is meaningful to the operators and appropriate to their unique needs.

A new leader. Historically, selecting a successor often related to family values and traditions rather than to business is-

ues. For example, the eldest male heir in a farm family was often the default successor. Today, however, the selection criteria include education and technological, managerial, and financial management skills, and successors are not necessarily natural heirs.²¹ Gaining experience outside the family business also has been recommended in order to increase the breadth of the successor’s perspective and the diversity of his or her work history.²² Other historical factors for selection have included age, sex, and birth order. However, integrity and commitment to the business have been acknowledged as superior indicators in successor selection. Farm businesses must begin to incorporate selection characteristics into succession plans that assess successors’ potential to assume a management role with increased complexity and accountability.²³

Succession Planning Applied to Family Farm Businesses

The application of succession planning to North Carolina farm businesses provides a timely demonstration of the benefits of human resource management theory in practice. Consider the example of Jimmy, whose story I present in seven parts.

Jimmy, Part 1

At fifty-five years, Jimmy is about the age of the average U.S. farmer and is slightly older than the average North Carolina farmer.²⁴ He is a fourth-generation operator, having taken over farm management from his father, who took over from his father, and so on. The historic father-son replacement pattern has been evident in this farm business for more than a hundred years.

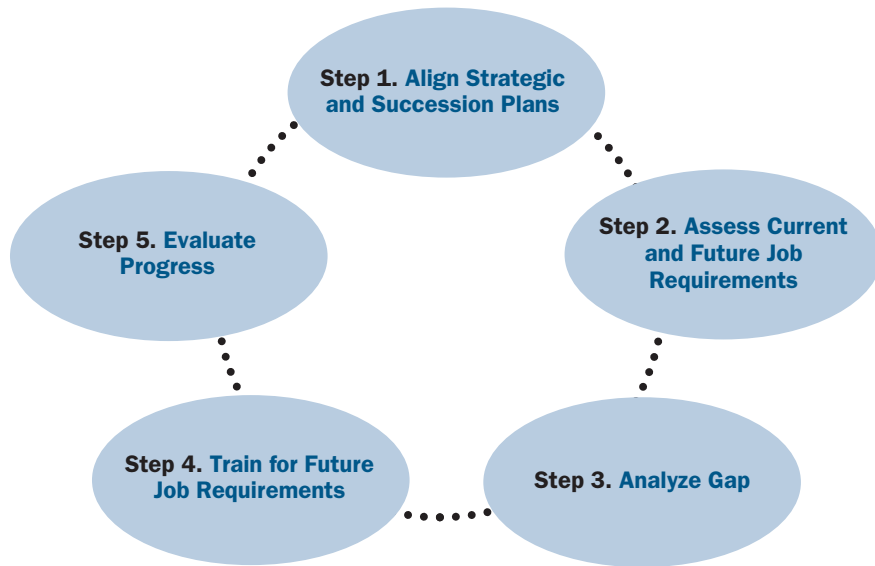
Relying on traditional practices for succession is not an option for Jimmy, however, because his only son is a pilot with no plans to succeed Jimmy. Thus the historical practice of replacement by a natural male heir is unlikely. How, then, will Jimmy ensure that the farm business successfully makes the transition to another generation and that the future manager will be adequately prepared?

According to 2002 Census data, succession most often occurs gradually through joint farm ownership by older and younger generations. Intergenerational activity is denoted by multiple owners of a single farm who differ in age by at least twenty years, and this multiple-owner structure describes nearly one-third of North Carolina’s farm businesses.²⁵ Achieving continuity of leadership through an intergenerational transition is a key advantage of succession planning strategies.²⁶

Before engaging in an intergenerational transfer, participants should consider several factors, including financial, emotional, and organizational stabilities: How willing is the older-generation incumbent to transfer management skills and decision-making responsibilities to a younger operator? Has the younger-generation successor acquired the necessary knowledge, skills, abilities, and other competencies to move successfully into a management position? The agricultural literature addresses these general considerations, but more detail is needed for meaningful assessment of the specific activities and practices currently being employed.

Developing good communication strategies, implementing a trial period, farming together but maintaining separate entities, conducting family business meetings, and creating the appropriate business structure are important considerations during transition periods.²⁷ Although these broad transition techniques have been identified and employed, they can be strengthened by drawing on the systematic manner of formalized succession planning as it is outlined in the literature of human resource management.²⁸ Establishing parallels between the planning practices in the agricultural literature and the steps in generally accepted succession-planning models found in the literature of human resource management will facilitate the goal of producing constructive strategies for current and future operators to use in preparation for a leadership transition. A well-fitted succession-planning strategy will foster a relationship that will capture the enthusiasm and the interest of the successor, which typically complement the experience and the wisdom of the incumbent.²⁹

Figure 1. **Farm Business Succession-Planning Model**



Source: From Brittany F. Whitmire, *Who Will Fill the New Boots? Examining the Use of Succession Planning in Farm Businesses*, Paper Presented at the Capstone Conference, Univ. of N.C. at Chapel Hill (Apr. 21, 2006) (on file with author).

Three Case Examples

To assess the response of North Carolina farm businesses to the pending crisis in human capital, I conducted exploratory research on the extent to which Greene County farm businesses are employing succession planning practices and strategies.³⁰ I identified candidates for the study by using the following criteria: (1) a farm business located in Greene County and (2) an incumbent expressing a desire to transfer his or her farming operation to a successor.³¹

The research reported in this article provided me with an opportunity to formulate the Farm Business Succession-Planning Model, a model specific to farm business management (see Figure 1). I analyzed the three cases in the study according to the engagement of the incumbent and, as appropriate, the successor, in the five steps of the model. The model customizes the key succession-planning elements in the Pennsylvania model described earlier, to the farm business context. It includes the following five components:

- Align strategic farm business and succession plans.
- Assess the current and future requirements in knowledge, skills, abilities, and other competencies for a future farm business operator.

- Analyze the gap between current and future requirements for a successor.
- Create training and development activities for the successor based on the gap analysis.
- Evaluate the progress of the transition between current and future operators.

Case Analyses

Overall, I found significant variation in the succession planning practices of the three farms in the study. The incumbent in the first case, which will be referred to as the novice case, was minimally involved in the first step of the model. The incumbent expressed a desire to pass the farm business along to a successor but had not specifically identified a potential candidate. Thus there were no explicit plans for a transition.

The incumbent in the second, or intermediate, case expressed a desire to consider management needs in the strategic plan for the farm business, which incorporated the knowledge, skills, abilities, and other competencies required of a future manager. However, this incumbent too had not specifically identified a potential successor and did not feel that planning for a future manager was a necessary part of daily farm activities.

The incumbent in the third case, referred to as advanced, undertook four of the five model steps, and the case itself surfaced as a well-developed example of succession planning for a farm business.

The ideal scenario, involvement in all five steps of the model, was not observed in the sample. The three farm businesses in the sample were placed on a continuum of involvement that ranged from no succession planning to full engagement in all five steps of the model (see Table 1 and Figure 2).

In all three cases, retention of farmland in family ownership served as the central motivating factor for considering succession planning. However, when incumbents were asked to describe the necessity of planning for a future successor, their responses varied from the novice case, “Not as critical as planning for other needs,” to the advanced case, “Really important.” These progressive responses



Table 1. **Four Stages of Model Involvement and Degree of Succession Planning**

Three Example Cases	Description of Model Involvement and Degree of Succession Planning
Novice	Minimal to no involvement in model steps Minimal to no necessity placed on succession planning Short-term future outlook (less than 1 year) Assumption of total management responsibility and risk by incumbent Insulation of successor from management responsibility and risk
Intermediate	Involvement in at least 1 step of model, usually training successor Some necessity placed on succession planning Short- to mid-term future outlook (1–3 years) Assumption of majority of management responsibility and risk by incumbent Introduction of successor to limited degree of management responsibility and risk
Advanced	Involvement in at least 4 steps of model Succession planning considered very necessary for farm business future Mid- to long-term future outlook (up to 10 years) Identification of successor and active engagement of him or her in farm business management Sharing of significant management responsibility and risk by incumbent with successor
Ideal (Not Observed)	Involvement in all 5 steps of model Comprehensive future outlook (up to 10 years) Equal sharing of management responsibility and risk by incumbent and successor Use of external resources by incumbent and successor for alignment, analysis, training, and evaluation Formal communication of model between incumbent and successor

directly related to the degree to which the incumbents not only engaged in the model components but also recognized the importance of such planning practices. An exploration of each of the five steps of the model, plus barriers to incumbent involvement, follows.

Step 1: Align strategic and succession plans.

Jimmy, Part 2

If Jimmy transfers his farm business to a fifth-generation manager, what will it look like in ten years? When does Jimmy plan to retire, and in what direction does the successor wish to steer the farm business? If the successor changes the farm's production focus from livestock to crops, then he or she will require a different set of knowledge, skills, abilities, and other competencies than Jimmy has.

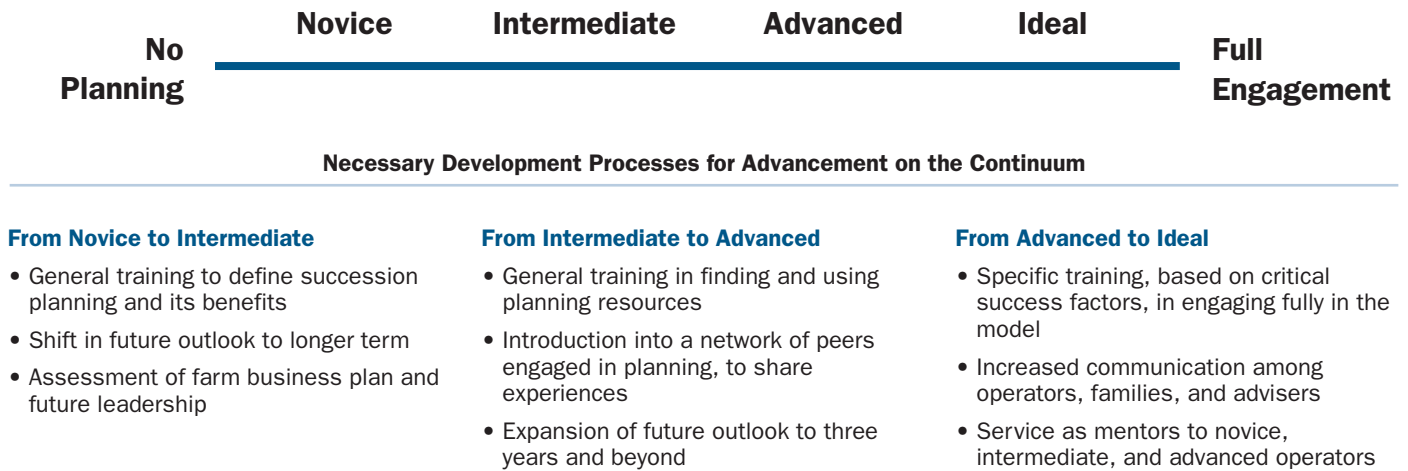
The first step in succession planning involves two components: determining whether a farm business will remain in existence via an intergenerational transfer and assessing when the incumbent will begin to phase out of management, or retire. This requires learning whether the manager intends to continue the farm business and, if so, in what form or strategic direction he or she plans to take it. For example, a farm business may currently focus on commercial livestock production, but the successor may hope to shift to grass-fed beef and organic strawberry production. In this case the succession plan would need to incorporate the shift in production to identify, analyze, and train a successor properly. In all the sample cases, the intent was for the successors to continue the current production foci.

All three incumbents in the present cases expressed the desire to maintain the farm business through an intergenerational transition to a successor.

However, the cases differed in the degree to which a successor had been identified and secured. For example, in the novice case, a potential successor was currently employed off the farm and had not expressed commitment to managing the farm business in the future. In the intermediate case, the potential candidates for successor were too young for the incumbent to identify either of them positively as future managers or to establish a timeline for transition. The incumbent in the advanced case, however, indicated that he would be phasing out of physical labor over the next two years and his successor already was actively involved in planning for the future management of the farm business.

Selection criteria for potential successors varied across the cases, but historically significant characteristics did not dominate the plans of the incumbents. Instead, the incumbents suggested that to be selected as a management successor, candidates should show

Figure 2. **The Continuum of Involvement in the Farm Business Succession-Planning Model**



Source: From Brittany F. Whitmire, Who Will Fill the New Boots? Examining the Use of Succession Planning in Farm Businesses, Paper Presented at the Capstone Conference, Univ. of N.C. at Chapel Hill (Apr. 21, 2006) (on file with author).

initiative, a good work ethic, love of the land, and appreciation for hard work.

Jimmy, Part 3

Jimmy might consider preparing his youngest daughter to succeed him because she has expressed interest in maintaining the operation and has demonstrated initiative in finding new ways to make the farm business profitable.

Step 2: Assess current and future job requirements.

Jimmy, Part 4

Jimmy's daughter will need to be familiar with animal husbandry, given current production. She also will need to understand horticultural science if the farm expands into crop production.

To ensure continuity of leadership and successors' possession of necessary competencies, incumbents must plan for the future needs of their farm businesses. In all the cases, future competency requirements included computer literacy and familiarity with technological applications, both in the office and in the field. For example, the incumbent in the advanced case insisted that his successor

be familiar with the global positioning system technologies used to map crop fields digitally in the office before applying chemicals, such as fertilizers or pesticides, with the tractor. Other future requirements included increased knowledge of global issues, international markets, and trade policies.

Step 3: Analyze the gap.

Jimmy, Part 5

Jimmy needs to be aware of his successor's current competencies so that he can help her learn the skills she is lacking. Working together regularly, creating a skills inventory, and researching the requirements of future agricultural trends will help Jimmy and his daughter assess her gap in knowledge, skills, abilities, and other competencies.

This step requires that current operators look beyond today's practices to guide their plans. Incumbents in the present cases varied from a wait-and-see attitude in the novice case to one that emphasized carefully considered future needs, in the advanced case. The latter incumbent also expressed familiarity with his successor's current skill set. He indicated that the current arrangement

of sharing responsibility for numerous farm activities allowed him to assess the successor's competencies on a regular basis.

Further investigation into the novice case revealed a short-term horizon centered on annual production schedules, whereas the long-term outlook in the advanced case reflected decision-making patterns ranging from 1 to 10 years.

Step 4: Train for future job requirements.

Jimmy, Part 6

Training for Jimmy's daughter might include on-the-job preparation, as well as enrollment in a local community college for a course in small business administration or marketing, to address skills necessary for future farm management.

Overall, the most common model activity in the sample cases involved training (or planning to train) successors. On-the-job training served as the most frequently reported form of conveying knowledge, skills, abilities, and other competencies to successors. Each of the incumbents identified experience as the best way for successors to learn management competencies, but only one equated such experi-

ence with formal, on-the-job training methods before the parallel was suggested.

Further probing revealed informal systems of training, including coaching, rotational assignments in different aspects of the farm business, and external education. The incumbent in the advanced case reported using at least five training methods to address his successor's competency gaps, including on-the-job training, mentoring, college enrollment, external training opportunities, and leadership development programs.

Step 5: Evaluate progress.

Jimmy, Part 7

Like the incumbent in the advanced case, Jimmy will want to meet regularly with his successor to discuss the transition and talk about their changing leadership roles.

The step reported least frequently in the sample was evaluation of the transition in management from incumbent to successor. The novice and intermediate case incumbents reported that they would initiate an evaluation of the planned succession when they perceived performance inadequacies in the successor. Such problems could be an indication of design failures in the specific succession plan, including inadequate identification of skills, selection of an inappropriate successor, and incomplete training strategies. In the advanced case, however, the incumbent and the successor held regular discussions regarding farm management activities without the impetus of disagreement over performance. The incumbent referred to them as "our planning sessions." He commented that waiting to provide constructive feedback until a mishap occurs "is the wrong time to talk . . . Everybody gets emotional then, when something's wrong."

Barriers to Planning

All three incumbents reported concern about the barriers that they faced in planning for their successors. Those barriers included limited availability of capital and financial resources, insufficient time, and high emotional stakes in changing leadership roles. In the

Resources for Farm Businesses in Transition

North Carolina Farm Transition Network

www.ncftn.org/

The North Carolina Farm Transition Network provides educational resources to farm families and professional advisers. Its mission is "to ensure that working farms remain in agricultural production by assisting retiring and aspiring farmers in the effective transition of farm businesses."¹ The network serves as a knowledge bank for broad, "definitional resources" (resources that explain succession planning concepts in ways that are easily applied to the farm business context) on transition and estate planning issues that novice and intermediate-stage managers may find helpful.

Beyond Tobacco

www.co.greene.nc.us/beyondtobacco.aspx/

In Greene County the Beyond Tobacco initiative facilitates development of a rural broadband wireless network and online resources for on-farm entrepreneurial opportunities. Educational opportunities, such as online instruction for computer software applications, enhance succession planning efforts for farm businesses by increasing computer literacy, which the incumbents in the three sample cases reported as a required competency for future farm business operators. Despite the initiative's offerings, only one of the incumbents expressed a limited familiarity with it.

Other Resources

National Farm Transition Network
www.farmtransition.org

North Carolina Cooperative Extension Service
www.ces.ncsu.edu

North Carolina Farm Bureau
www.ncfb.org

North Carolina Farm Service Agency
www.fsa.usda.gov/nc/

North Carolina State University, Agricultural and Resource Economics
www.ag-econ.ncsu.edu/extension.htm

Note

1. North Carolina Farm Transition Network, www.ncftn.org/ (last updated Nov. 8, 2006).

novice case, a perceived lack of necessity also served as a reason not to engage in succession planning. Although each of the incumbents indicated that farmers "never really retire," all did admit that gradually "slowing down a little" was becoming an attractive option as they aged. Phased retirement could lessen the emotional reservations of the incumbents while allowing the successors to assume more of the responsibility and risk associated with management.

The younger incumbents reported engaging in succession planning less frequently than the older incumbents. Perhaps youth also is a barrier to succession

planning, for the impetus of retirement is distant for young incumbents.

Recommendations

The extent to which the incumbents in the sample were engaged in succession planning varied significantly. This finding likely represents common variation across Greene County and North Carolina. The significance that the incumbents placed on planning for a successor correlated with both their use of multiple training activities and the degree to which they practiced succession planning components.



Despite the variation in the sample, each case illustrated the applicability of generally accepted succession-planning steps when they are tailored to meet the specific needs of the individual farm business. Although his succession planning was somewhat informal, the incumbent in the advanced case recognized both the necessity and the benefits of planning for leadership transitions. In this case the incumbent and the successor regularly engaged in evaluation sessions to assess progress and were open to considering their informal practices as formalized components of the model.

Succession planning—so what? None of the incumbents reported that planning for future successors was a common practice in the agricultural sector. One commented, “I don’t think many people do think about planning for someone to take over . . . Folks I’ve noticed around here, most of them [assumed the management position] . . . when somebody died or got sick.” Education on what succession planning is, what benefits it can offer farm businesses, and how it can be implemented is a critical first step. Perhaps an increasing familiarity with managing human capital and a growing awareness of succession planning will encourage current operators to incorporate a succession plan into the operation of their farm businesses. One way in which

this education could be facilitated is through the cooperation of both public and private agricultural organizations, grower associations, and government agencies that serve the agricultural sector.

Resources and support. The variation in succession planning activities in the three cases provides a basic outline for development of resources (see Figure 2). Farm businesses that are engaged in minimal succession-planning practices, similar to the situation in the novice case, would benefit from broad resources that explain succession planning concepts in ways that are easily applied to the farm business context. These operators need information and resources that are readily available through networks in which they already participate. Farm businesses engaged in higher levels of succession planning, like those in the intermediate and advanced cases, need tools that provide more specific guidance on management and maintenance of a dynamic strategic plan that assesses and accounts for future human resource needs.

Based on the research reported in this article, developmental opportunities offered by the North Carolina Cooperative Extension Service, grower associations, and other agricultural organizations can contribute to decreasing gaps in successors’ knowledge, skills, abilities, and other competencies. The incumbents in

all three cases reported their county cooperative extension office as a valuable information resource. The incumbent in the advanced case specifically mentioned developmental opportunities offered through cooperative extension and the North Carolina Farm Bureau Federation as helpful training tools for potential successors. (For more information about these and other resources, see the sidebar on page 40.)

Where to next? Particularly important in the coming years are farm operators’ concerns about the direction of agriculture in Greene County and across the state, especially regarding tobacco production. For farm businesses to remain viable in the next decade, future operators must be knowledgeable, skilled, and well prepared for future tasks. In every county in North Carolina, farmers like Jimmy in the example face challenges in positioning successors to lead their organizations into the future. Likewise, city and county governments, nonprofits, private companies, and other organizations of all sizes will feel the effects of baby boomers’ retirements for the coming decade.³² The lessons of this study demonstrate that general succession-planning models are adaptable to the specific needs of most organizations or departments, particularly those that employ fewer than ten people.

To create more rigorous succession-planning tools for farm businesses already engaged in some planning activities, further research must identify the critical factors in farm businesses that have effectively completed an intergenerational transition. Organizations will benefit from practical planning resources and user-friendly tools that are developed specifically for their needs and operational contexts (see the sidebar on page 40). Support organizations, including government units, nonprofit organizations, university projects, and private businesses, must engage in a dialogue on the common goal of maintaining and ensuring the viability of farm businesses and other organizations throughout the state.

Notes

This article is based on original research reported in Brittany F. Whitmire, *Who Will Fill the New Boots? Examining the Use of Succession Planning in Farm Businesses*, Paper Presented at the Capstone Conference, Univ. of N.C. at Chapel Hill (Apr. 21, 2006) (on file with author).

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