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Charles H. Dyson School of Applied Economics and Management  
Cornell University, Ithaca, NY 14853-7801 USA

### **Management and Leadership Succession Lessons Learned from Large Farm Businesses in Former East Germany**

**A. Edward Staehr**

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# Management Succession Lessons Learned from Large Farm Businesses in Former East Germany

A. Edward Staehr, Senior Extension Associate  
Charles H. Dyson School of Applied Economics and Management at Cornell  
University

**Purpose** – The purpose of this paper is to provide a context for recruiting, training and promoting non-family managers on large farm businesses.

**Design/methodology/approach** – Observing the process of training and recruiting non-family members for management positions on large farms in Brandenburg, and Mecklenburg-Vorpommern Germany could provide an example for farm businesses owners in the United States who have not identified a family member as management successor.

**Findings** – Large farm businesses have an opportunity to train key employees from within, for positions that lead to overall management. Recruiting and training a management successor is a multi-year process that requires significant effort.

**Keywords** – Human resource risk, management succession

Although the majority of farmers manage price and production risk via crop insurance, an area often overlooked by farmers is managing human resource risk; namely management succession risk. A study conducted by Loble, et al. (2010) indicated that 72 percent of Iowa farms have not identified a successor. Meanwhile, the average farmer age in the United States is now 58.9 years old for full owners (USDA 2019). The purpose of this paper is to illustrate a system and approach to recruiting, selecting, and promoting non-family managers on large farms in the areas of Brandenburg, and Mecklenburg-Vorpommern in the former East Germany. Some findings could be incorporated on farms in the United States, and in turn, create opportunities for the next generation of farm managers.

## Factors for Study

As farms become larger and more complex, finding and training a management successor from within the family could present an increasingly difficult challenge. Multiple- owner farms in former East Germany provide an illustration of how a non-family member successor to management is identified and promoted to provide management and leadership on a complex farm business. A key factor in having a management succession process in place in Germany is current farm CEOs have identified fixed retirement dates, and view recruiting a viable management successor as a high priority and part of their job. In contrast, a poll conducted by Arbuckle at Iowa State University Extension and Outreach found that 35.1 percent of farmers in the United States have not set a retirement date, because

Farming is such an important part of their identify that retirement is very difficult (2014. P.1)

NY FarmNet, a program at Cornell University that provides free and confidential consulting for farm families, works with over 60 farm businesses a year to prepare for management succession and business transfer to the next generation. (Staehr, 2018). Many farms are focused on transferring assets and lack a plan to transfer management, based on NY FarmNet experience. Training the next generation for management should take place before transferring farm business assets. Timely management transfer may provide benefits such as a smoother transition, and increased likelihood of business continuity. This study provided an opportunity to observe how management is recruited and trained on large farm businesses in Germany.

### **Farm Evolution and Transition in Former East Germany**

Land reform began in 1945 after the Second World War and served as a gateway for farm collectivization. Farm owners with land holdings over 100 hectares (247 acres) saw their land expropriated without compensation. Over 2.1 million hectares were distributed to small farmers (Eidson 2001). Farms with less than 100 hectares owned by war criminals were also expropriated (Wolz, et. al, 2008). Farm collectivization began after 1952 with a legal structure of *Landwirtschaftliche Produktionsgenossenschaft, (LPG)*, translated to Agricultural Production Cooperative. Another source of land that was transferred into collective farms occurred from 1950 to 1952, when over 5,000 owners of large farms left their land and moved to the West (Bauernkaemper, 1997).

At first, private land owner farmers worked only their arable land collectively, and all livestock was owned individually. Over time, the state exerted pressure for farmers to join another form of an LPG, termed LPG III. This business structure aided the state in accomplishing a goal that all farms would be collectivized by 1960. An example of the pressure to join cooperatives occurred when the state refused to sell fertilizer to independent farmers (Eidson).

During this relatively early phase of development, the LPG management used the estimation of the worth of assets as a political instrument for rewarding or punishing individual farmers, depending upon whether they acquiesced or resisted collectivization. (2001, p. 30).

Farmers who voluntarily entered into LPGs early on derived more benefits than those who waited or were forced to join. Once collectivization was complete, LPG consolidation began. In 1960 there were initially over 19,000 LPGs in East Germany. By the 1980s, the number of such farm businesses declined to approximately 5,110 LPGs (Land, 2000).

To achieve full employment in East Germany, the state placed minimally skilled workers on LPGs. The number of LPG workers declined from 850,000 before German reunification to approximately 160,000 in 1993 (Land).

## **Socialist Government Collapse and Transformation to a Another Farm Business Structure**

In late 1989, the German Democratic Republic (GDR) collapsed and there was a need for further land reform. The Agricultural Adjustment Act was put into place in July 1990 and served as a foundation for restructuring property ownership and farm business enterprises. Smaller farmers retained title of their land that was previously placed into collective farms. The act stipulated that collective farms had to be dissolved or reorganized by the end of 1991 (Eidson, 2001). West Germans thought that collective farms would be separated and turn into smaller farms, as in the West. However, an LPG successor, Agrargenossenschaft (eG), translated to agricultural cooperative, was viewed as a viable alternative for former collectivized farms.

Many LPG members had reservations about starting their own farms, as they viewed farm size as too small to be competitive. Advisors from West Germany encouraged LPG cooperatives to sell their holdings to investors from the West (Wolz, et. al, 2010).

This experience with West Germany advisors made them (farmer land owners) indirectly confident that their large scale farms will be competitive in a market economic environment, which proved to be right in the following years (p.8).

Forming a large scale farm business enterprise with multiple property owners also provided an opportunity to take advantage of EU agricultural subsidies and economies of scale. Wolz, et al. stated:

Thus, the reestablishment of large cooperative farms was not the result of a conspiracy of old Communists but of villagers (land owners) who as carefully as possible tried to start into a totally new economic system... (2010, p. 13).

## **Farm Business Characteristics**

A key difference among dairy farms observed for this study and those in the United States is diversification among business enterprises. All farms had dairy enterprises between 800 and 3,500 cows. One agricultural cooperative had eight complimentary business enterprises, including a large dairy farm, John Deere equipment dealership, farm store, restaurant, potatoes, asparagus, etc. For example, there are 18 individual owners and over 130 employees on this agricultural business.

All farms employed a considerable number of employees. The range of employees in this study numbered between 30 and over 300 employees. Vegetable production and harvesting labor requirements resulted in having considerably more employees

than a single enterprise dairy farm. For example, one farm grows over 650 hectares of asparagus, and over 200 hectares of blueberries, as well as having a dairy. This business is located within a half hour drive of a population over 3.5 million and thus, has a viable market for such produce.

Some farms in the study organized as an eG for business purposes, also had complimentary farm businesses structured as *Gesellschaft mit beschränkter Haftung* (GmbH), the equivalent of a Limited Liability Company in the United States and other countries. The GmbH form of business structure originated in Germany in 1892. (Devries, Juenger 1964). Whereas the LLC business structure was first formalized in the United by the Wyoming State Legislature in 1977. (Hamill, 2005).

As in the United States, on many German farms, labor for milking cows was provided by workers who came from another country. Immigration policies in the European Union allow for workers from other member countries, such as Poland, to work legally across borders. Farms make accommodations for workers who are not fluent in German. For example, many instructional signs for workers on farms were in both Polish and German. Such a relatively stable labor supply is critical for all sectors of agriculture requiring labor for milking, vegetable and fruit harvesting.

### **General Management Succession Observations**

All farm business CEOs (*Betriebsleiter*s) had a minimum of a Bachelor's degree equivalent, and some had Masters' degrees from agricultural universities. Recruitment methods varied for key management positions, but all farm businesses utilized social media to find new management talent. All farms also strive to train management from within and may have multiple apprentices. The German Apprenticeship Model is highly structured and is a combination of work and vocational school. Apprentices attend vocational school for 13 weeks per year and formal instruction subjects may include: technical calculus, computer science, German, English, and coursework in professional foundations for plant and animal production. On some farms, if an apprentice demonstrates management potential, a farm may pay a room and board stipend at an applied sciences university, with the stipulation that the individual return to employment at the farm for a set period of time. Tuition at all universities is free, and one university visited for this study indicated that a cumulative cost for a student to obtain a bachelor's degree is approximately \$30,000 over four years for room and board at an applied sciences university such as Hochschule Neubrandenburg.

A hybrid applied sciences university dual study degree program provides students with technical coursework, combined with employment on a selected farm. Four key components of a dual study program include: apprenticeship, occupational school, coursework at the university and applied work on a selected farm.

Dual study semesters involve a multitude of components. The first and second semesters include an apprenticeship and occupational school. Third and fourth

semesters include an apprenticeship, combined with university coursework from September through February, and occupational school. Fifth and sixth semesters are spent at the university and there is an apprenticeship final exam. During the next two semesters, students attend the university while working on a farm as an employee. The ninth, and final semester involves working on a farm for six weeks, and coursework that leads to a Bachelor's of Science degree. (Fuchs, C., personal communication, November 23, 2016).

Most farms recruit from the local community and hold educational events for school children to expose them to potential career paths on farms. Some farms hold large community events, and one farm business attracts over 1,000 visitors at an annual barbecue and open house. There is also a community connection on some farms that generate electricity to provide power to nearby municipalities. Current farm CEOs view every event as an opportunity to potentially connect with someone who may become a manager in the future.

All farm CEOs in the observational study had a strong connection with faculty at an agricultural university. It is not uncommon for faculty to make referrals and connections between promising students and large farm businesses. In addition, over 8,000 youth up to age 36 belong to Junge DLG, a network comprised of young farmers, students, technical students, and professionals. This network hosts events at trade shows such as EuroTier, an animal agriculture exhibition that attracts international attendees and provides career seminars for those interested in exploring agricultural careers.

### **Three Farm-Level Management Succession Observations**

One farm observed had a future CEO in training. The next generation studied at Dresden University and visited the farm seeking employment opportunities. He was hired, signed an employment contract, and is under the mentorship of the current CEO. The farm currently has 32 employees, compared to 504 before the Agricultural Adjustment Act. (Laurence, D., personal communication, September 20, 2016). A total of 50 land owners have equity in the farm business and are able to collect EU subsidies, as their individual holdings are less than 1,000 hectares.

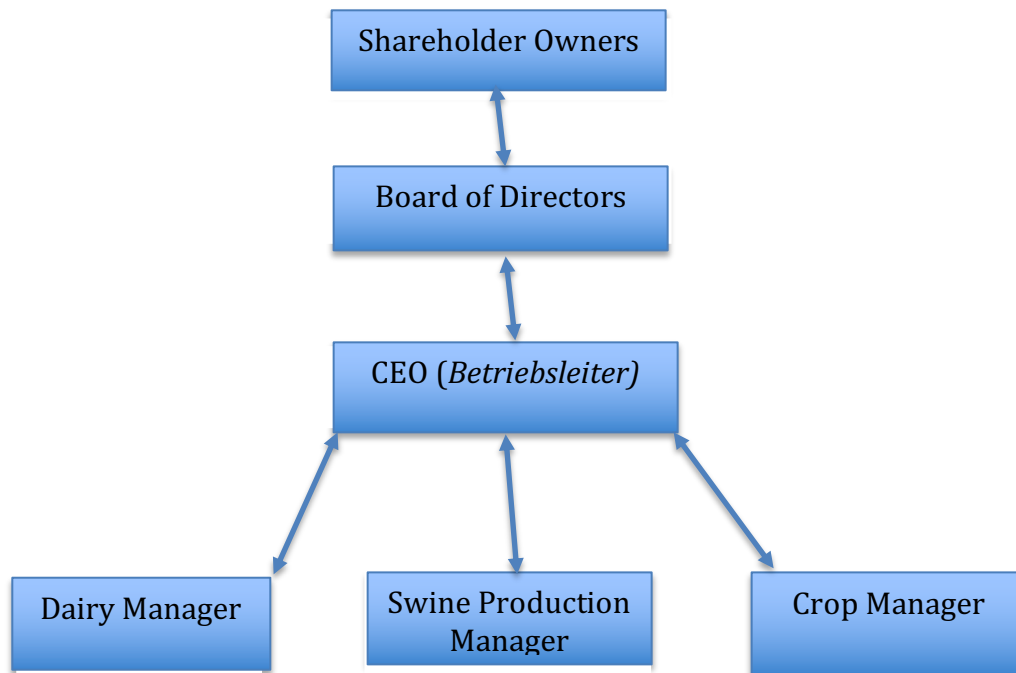
The future farm business CEO has a performance appraisal four times per year. Moreover, there is daily communication with the current CEO to discuss business enterprise issues. This farm business is comprised of over 2,400 hectares and has three operations managers who report to the current CEO. The management succession path is to demonstrate proficiency in managing all three areas before becoming the next CEO over a period of three years as part of a well-developed management transition plan.

Another diversified dairy farm employed a CEO who has a Master's degree and came with experience managing a 2,500 hectare crop farm. His management track

involved a five year evaluation process and the current CEO was recruited by the former CEO. A key component of evaluation included daily meetings and demonstrating management proficiency in each farm business enterprise (Schieban, U., personal communication, September 26, 2016). There are 18 owners of this 5,300 hectare farm business that employs over 100 workers. The current CEO places a high priority in visiting schools to discuss agriculture and career paths on farm businesses. Moreover, he eats lunch in the farm cafeteria with all staff as a means of providing additional accessibility to employees who wish to discuss farm business operational issues.

A third farm visited had a two year training and evaluation period for the current CEO, who knew the former CEO. The new manager has a degree from an agricultural university and grew up in the area. He worked in Britain on a hog farm that raised swine outside, and brought this experience to the current farm business. The farm was able to brand their pigs as a “Juterbog Hog”, which is sought after by numerous restaurants. Two years ago, a modern dairy complex was added, after the management team drove over 45,000 miles to visit numerous farms to decide which technology to utilize in their new dairy enterprise.

### Management Organizational Chart for Farm Three





## **Policies to Encourage Farm Business Management Succession**

The German government does not want to break up privately-owned businesses and has policies in place to encourage business continuity. There is no inheritance tax on up to 26 million euros for assets in a family-owned business. However, there are conditions to receiving such a benefit. The business must keep the current workforce and utilize retained earnings for productive capital investments related to the business, instead of withdrawing funds for uses outside of the business. (O. Maydell, personal communication, November 25, 2016).

There is a separate form of social security for farmers that is obligatory. This program is a self-administered federal corporation within public law. Providing a guaranteed source of income encourages farm business succession to the next generation.

In addition to receiving a guaranteed income after retirement, farmers pay a reduced Valued Added Tax on products and receive a full refund after tax has been paid. The VAT tax rate is seven percent on agricultural products, compared to 19 percent for other products.

## **Applicability in the United States Dairy Industry**

Although there are many differences in management succession in Germany and the United States, a multitude of business practices could be incorporated. Frequent and meaningful communication between current and future managers provides a framework for successful management transfer. Moreover, having a fixed retirement date could serve as an impetus for current owner/managers to recruit and train their successor.

Incorporating components of a dual study program could also yield benefits for students and farm owners. Currently, a vocational education program and community college based in rural New York State are seeking guidance from the author in offering students increased opportunities to acquire specific on-farm skills, in conjunction with pursuing a degree or certificate.

Taking a proactive approach in communicating with career counselors at pre-secondary schools about careers in production agriculture can be beneficial and encourage more students to explore agricultural careers. Connecting with schools to offer tours for young students would also help stimulate student interest in potential careers on farms. Moreover, utilizing social media to educate the public about modern farming practices and as an employee recruitment tool to reach more youth who are tech savvy would further enhance desirability of agricultural careers.

## Conclusion

As dairy farms become increasingly larger and complex, recruiting non-family members for key management positions could offer improved potential for farm business continuity and growth. Current farm owners/managers who take innovative approaches in recruiting and cultivating new management as a critical component of their job will increase the possibility that their farm business will remain viable into the future.

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