

DOWN ON THE FARM

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The Craddock family are longtime and influential members of their community in eastern North Carolina. The family has been engaged in farming for over two centuries and has expanded into land development, trucking, and, most recently, into international sales of used cars. These businesses are owned and managed by the three Craddock brothers.

This case describes the family structure and presents three major problems currently facing them: succession planning, farming problems and globalization. There is no succession plan in place, other than that the last living brother will be bought out by the other families. The farming operation is seasonal and farming over 5,000 acres requires the use of seasonal migrant workers, most of whom are immigrants. Many potential legal and ethical problems are associated with hiring, housing, and obtaining appropriate documentation for these workers. A new venture into global sales provides both opportunities and risks as the brothers decide whether they should continue to expand this and other global operations.

This case is intended for upper-level undergraduate business classes. It is particularly well suited for a course focusing on Entrepreneurship or Family-Owned Businesses. Students are presented with three very different problems, each of which has legal, practical and ethical implications. Students are provided with information about Ethical Decision Making Theories in an Appendix and are asked to apply these theories.

The three different problem areas are succession planning, employment of migrant workers and entry into the global marketplace. The instructor can assign all three problems or only a portion of them.

INTRODUCTION

The Craddock family, longtime members of their eastern North Carolina community, can trace their roots in Columbus County, North Carolina, back some two hundred years. They have been pillars in this area as far back as anyone can remember. Their

considerable wealth comes from farming, construction and transportation businesses, and they have also just begun a new business exporting cars to Saudi Arabia. The family exerts wide-spread social, economic, governmental and educational influence.

On this day John David Craddock, leader of the family business interests, was thinking that life just didn't get any better than this. He was healthy, wealthy and had a wonderful family. The harvest season was just beginning and he was looking forward to another successful season. He just couldn't understand why his daughter, Rayna, was such a pessimist. Rayna had just graduated from a liberal arts college with a degree in Business Management and was trying to explain why she thought the family businesses had multiple potential problems. Her father was thinking that her expensive education was giving him a headache.

Although Rayna has great respect for her dad's age, experience and business success, she is still troubled by what she sees as problems the family business must face and attempt to address. She was raised as a "Craddock" and been immersed in the family enterprise to the point that following the family traditions was simply expected. This largely means that few, if any, leadership decisions were subject to being questioned!

College courses such as *Ethics, International Studies, Labor Relations, and Human Resource Management* have shaped the way Rayna views the family business. She realizes that even though she lacks the experience her dad and uncles have in conducting business, certain changes are inevitable. The family must look at issues of succession planning, employment of migrant labor and globalization. Each issue has an ethical dimension and requires a different approach for successful competition in the twenty first century. Given this, then, her dilemma is to formulate a strategy that allows her to shed light on what she sees as problems for the family business without alienating her father and uncles.

Business problems are one thing, but family problems are another. Rayna recalls the recent family "mess" created by the marital problems of her Uncle WD that led to a fairly expensive divorce settlement. The family thought that the situation had abated when the ex-wife left town. The departure was short lived and now she is back living in the community! Rayna could not help but wonder what, if any, impact this would have on the family and the business.

FAMILY

The immediate Craddock family includes three brothers, their mother, their wives and their children. John David is the middle brother who has one daughter, Rayna and Robert Lee is the oldest brother who has two teenage girls. William Dale is the youngest brother and has one daughter and two step-children. John David is the undisputed leader of the family businesses, but each of the other brothers plays an important role. Robert Lee is a member of the local Board of Education and represents the family on several agricultural association boards. William Dale serves as the family spokesman and is frequently quoted in the local newspapers and represents farming interests on local television news segments. Robert Lee is the only one of the brothers to complete a college degree and is also the one brother who has had employment outside of the family businesses – he taught in the public schools many years ago.

STRUCTURE OF THE BUSINESSES

One central partnership and five corporations make up the family businesses. John David Craddock serves as President of the various corporations described below. He and his two brothers, Robert Lee (“RL”) Craddock and William Dale (“WD”) Craddock are equal partners in the farm partnership. RL and WD serve as officers in each of the corporations. One corporation, JRWS has a non-family member as an officer. Emily, John David’s wife, has worked for the businesses for over 20 years. WD’s wife worked for the company until she and WD were divorced a year ago. A cousin, Janie Smith, has worked as a dispatcher for about a year and John David’s daughter, Rayna, works part time while she pursues an MBA at a local college. Even though all the brothers have children, only Rayna currently works in the family businesses.

THE SEPARATE BUSINESSES ARE:

Craddock Farms, Inc. was incorporated in the 1980s when the three brothers entered the family business. Craddock Farms owns all the land and equipment, which it leases to Swamp Fox Farms. Craddock Farms owns approximately \$3 million in equipment, not including barns and buildings. They have a full time mechanic and a fully equipped service truck.

Swamp Fox Farms Partnership pays rent to Craddock Farms for land and equipment and is the farming organization. When Swamp Fox Farms borrows money, Craddock Farms guarantees it. Swamp Fox Farms also leases land from lots of other people.

JRW Corp. develops land and creates subdivisions. They have recently finished developing a 68 acre tract that they bought from an aunt. They put in streets and are selling lots. There appears to be a potential for future housing de-

velopments since new interstate roads make it an easier commute to more urban areas.

JRWS Corp., a fairly new entity, sells cars to Saudi Arabia and is partially (49%) owned by a non-family member.

Craddock Amoco Corp. owns and manages an Amoco gas station and convenience mart located on a nearby interstate highway.

Craddock Trucking LLC transports what Swamp Fox Farms produces.

RAYNA'S LIST OF PROBLEMS:

1. Succession Planning
2. Farming Problems – Employment of Immigrant Labor
3. Globalization Efforts and Opportunities

OVERVIEW OF THE CASE

Your instructor will decide whether you are to address all three of the issues in the case, or whether you are to concentrate on some subset of the issues.

ISSUE ONE: SUCCESSION PLANNING

Currently, there is no official succession plan.

Entrepreneurs often spend so much time building their business, they give little thought to how they'll leave it and often get blind sided by the amount of time it takes to create and execute an effective succession plan. Owners often associate succession planning with simply choosing a successor. (Valentine)

The legal documents for the businesses are set up so that if one brother dies, the other brothers will buy out his heirs. There is no provision to allow for the family of a deceased brother to continue as part owners of the businesses. The entire succession "plan" is that the last brother living will own all of the businesses, with the exception of the 49% of the JRWS Corporation owned by an outsider. There is no plan for the remote possibility that all three brothers might die in a common accident. There is also no plan for the next generation of family members to participate in and continue the business.

Very little thought has been given to funding the buyout of a deceased brother's part of the businesses. "Personal financial planning will play a role in the succession plan whether you intend to sell the business to an outside party or gradually transfer your interest to a key employee or family member" (Valentine). Even less time has been

given considering whether the remaining brother would have the skills necessary to continue successful business operations. Like most farm families, the land and the knowledge to manage it were passed from generation to generation with little analysis about what has made the businesses successful. When their grandfather died, he left the land and business to his son, even though he also had two daughters. When their father died, he left no portion to his widow and divided the farm among his three sons. Their mother now exerts considerable influence although she has no actual ownership of the family businesses.

“Entrepreneurs, particularly those with family members involved in the business, often dread actually naming a successor because they anticipate it causing rifts among employees and family members” (Valentine). The oldest brother, RL, has two teenaged girls. John David has only one daughter, Rayna, who is 23 years old. The youngest son, WD, has one daughter who is 12 and his ex-wife has two teen-aged children. Of the immediate family, there are four daughters and no sons. Only Rayna has worked in the business.

Questions for discussion:

1. Discuss the importance of a succession plan for family businesses and the main issues that must be addressed in a succession plan.
2. What ethical issues arise when dealing with succession planning for family businesses?
3. What legal and accounting issues are unique to family farms?

ISSUE TWO: FARMING PROBLEMS – IMMIGRANT LABOR

Swamp Fox Farms is a partnership with three general managing partners, brothers John David, Robert Lee (RL) and John Dale (JD). This partnership was initially formed as a response to policies of the US Department of Agriculture Farm Service Agency which limits program payments.

The Farm Service Agency (FSA) administers and manages farm commodity, credit, conservation, disaster and loan programs as laid out by Congress through a network of federal, state and county offices. These programs are designed to improve the economic stability of the agricultural industry and to help farmers adjust production to meet demand. Economically, the desired result of these programs is a steady price range for agricultural commodities for both farmers

and consumers.
(U.S. Department of Agriculture)

This agency limited governmental subsidy payments that could be received. However, the three partners, treated as individuals, could get three payments instead of only one payment. John David and Robert Lee both agreed in an interview that growing cotton is not feasible without government subsidies. For example, at 70 cents/pound there is no government payment, In May, 2007, it was 55 cents/pound plus a 13 cent subsidy according to John David. As of Oct 8, 2007, the price was 53.5 cents/ pound (U.S. Department of Agriculture Farm Service Agency).

The Craddocks farmed a little more than 5,500 acres in 2006, including:

- 1,500 acres cotton
- 1,500 acres tobacco
- 900 acres soybeans
- 900 acres corn (for grain)
- 400 acres sweet potatoes (shipped to Great Britain)
- 300 acres wheat (for milling flour)

Labor costs in 2006 were over \$1 million, making them one of the largest employers in the county. Chemical costs were over \$700,000 and it is estimated that the farm is a \$4 million per year business. There are 10 full time and 3 part time employees for farming. During harvest season, 35 to 40 migrants are added. They have a crew leader who speaks Spanish and "American" according to RL. None of the partners speak Spanish. The office manager at Swamp Fox Farms (John David's wife) is responsible for documentation and requires that all migrants have appropriate identification and documentation. They provide housing at no cost to the workers in a labor camp permitted for 60 people. Their greatest fear is for INS to raid them during harvest season. They pay minimum wage. The workers include men and women and their children frequently come with them. Columbus County has a migrant head start program and parents are encouraged to enroll their children. The mothers stop early and come back to the labor camp. Workers provide their own transportation. The work season begins in April and lasts until November.

John David's view on immigration is that we should allow access through work permits. In other words, a guest worker program should be established. Anecdotally, he has been told stories about their workers who went back to Mexico and got caught coming back across the border. The workers were stopped the first time but got over the border the second time. There has been no attempt to confirm or prove these rumors, since no one is sure how far they are expected to go in the investigation

of the documents of the migrant workers. The office manager is careful to review each worker's documents and to keep all required records, but she has an uneasy feeling that she might have been shown false documents in the past. There do not seem to be clear guidelines about how far a business is expected to go in validating the documents of the workers, so documentation is confusing at best and difficult to find.

There are other issues involved with using migrant workers that John David has been concerned about. In terms of housing for the workers, all of their units have been registered, inspected and certified. They have approval for 36 workers and their families. The housing includes space for sleeping, bathrooms and cooking/dining. The certification states that workers arrive April 15 and depart by November 1. Each year, many of the same workers return to Craddock Farms and the Craddock family has watched while the children of their workers have grown and become migrant workers themselves.

Another issue that worries John David is the future of the migrant families. He has read that the life expectancy of migrant farm workers is low compared to the U.S. average and that the educational level of their children is much lower than other groups. He knows that he provides decent housing and is fair with his workers, but they still earn very little. It's a real dilemma, but after all, he's got a business to run. Actually he has several businesses to run.

The current situation is not easy for farmers. Farming requires many acres of land and the brothers agree that they couldn't start the farming business now since profitable farming relies upon economies of scale. There are a small number of farmers left and they believe that their political clout and influence have waned over the past 20 years. The current political climate makes the continued use of migrant workers uncertain and it would be impossible to run the farm without seasonal low-wage workers.

One change that has been made in the last several years is to switch much of the big equipment on the farm so that it runs on biodiesel. Biodiesel is made from soybean oil and is an alternative to regular gasoline products. If demand for biodiesel grows and the price of soybeans increases, Craddock Farms would consider growing more soybeans. According to John David, "Soybeans last year were at \$5 a bushel. This year, it's just over \$8." Perhaps a change in the distribution of crops is on the horizon.

Farming fifteen hundred acres of soybeans and fifteen hundred acres of tobacco re-

quires major resources in terms of land, labor and capital. It also represents a huge revenue stream. Along with farming tobacco come the usual questions of tobacco harm to health, medical costs incurred by smokers, effects of secondary smoke, individual rights and ethical issues, just to name a few.

Then there are the “do-gooders” who have to weigh in on the morality of growing tobacco. The subject of tobacco is a popular issue since so much money is involved. Farmers have been growing far less tobacco in recent years since the government has changed its position on tobacco allotments. Just a couple of years ago, the government paid tobacco farmers a lump sum called a “buyout.” Farmers lost their livelihood and all they hear from non-farmers is discussion about how rich they got. John David believes that the buyout wasn’t the windfall that most farmers expected. It didn’t replace the income lost in the previous 7 or 8 years or expenses incurred while waiting for the buyout.

John David muses to himself, “Farming has certainly become a difficult business. Not only do the farmers have to put up with uncertainty due to weather, they also have changing governmental programs and criticism from those who don’t understand how difficult and risky farming is.”

Questions for discussion:

1. What are the legal requirements that an employer must meet when hiring workers?
2. Are there additional specific requirements for migrant or seasonal workers?
3. Are there special governmental programs that assist companies in acquiring seasonal migrant labor?
4. What are the ethical issues that an employer must address when hiring migrant workers?
5. What other ethical issues are facing people engaged in agriculture?

ISSUE THREE: GLOBALIZATION

The brothers’ most recent venture was started in 2007 when they became acquainted with a local man who is an American citizen from Pakistan, Muhammed Azi. They created JRWS corporation and Azi owns 49% of the new business while the brothers own 51%. Azi’s father and brother are in Saudi Arabia and own a car lot. The idea is to buy used American cars, manufactured in 2000 or before, but not to pay over \$5,000 for each car. There is a steady demand for large American cars in Saudi Arabia where there is no shortage of oil or gasoline. The first shipment of 9 cars

left on a freighter from Norfolk at the end of February. The buyer pays the freight and the company hopes to average a profit of \$1,000 per car. Rayna is working for the new corporation and Muhammed Azi is listed as the registered agent for the corporation with the Secretary of State's office. Rayna hopes that if she performs well that she will be brought into the other family businesses.

Prior to this new venture, the Craddock's only international venture was selling sweet potatoes to Great Britain. Craddock Farms currently has 400 acres producing sweet potatoes and they are shipped exclusively to Great Britain. According to the N.C. Department of Agriculture website, sweet potatoes are the official vegetable of the state of North Carolina and North Carolina is the number one producer in the U.S. of sweet potatoes (North Carolina Department of Agriculture).

Having had some small success at establishing a niche in the global arena with automobiles and sweet potatoes, John David wonders what, if any, direction the family business should take in the ever-growing global marketplace. He realizes that in the great scheme of things his family enterprise is awfully small. The troubling question is one of how much risk the firm should take. After all, things are going well and managing it is not so difficult. Still, he thinks should we become more venturesome?

Questions for discussion:

1. The Craddock family is fairly new to global business. What similarities and differences between domestic and global business practices should they be aware of?
2. How can the Craddock family discover, evaluate and choose among additional global opportunities?

APPENDIX A – ETHICAL THEORIES

This Appendix is adapted from the Teaching Note for “Bad Blood,” by Rebecca J. Oatsvall and Jane E. Barnes, presented at the 2007 SECRA meeting. The following theories are often used in analyzing various ethical decisions:

UTILITARIANISM. This theory provides the moral foundations of classical economics and is often used by business people because it uses a cost-benefit concept. The principle was first espoused by Jeremy Bentham in the late 18th century, but is best captured by John Stuart Mill in his essay *Utilitarianism*. The basic principle of Utilitarianism is the greatest good (utility) for the greatest number. To analyze an issue utilizing Utilitarianism, one must first identify the various courses of action available. Next, ask who will be affected by each action and what harms or benefits will accrue. Lastly, choose the action that produces the greatest benefits and the least harm (Velasquez, et al.). This approach is often criticized because it is usually impossible to measure utility and it fails to address the problem of unequal distribution of the greatest good.

THE JUSTICE OR FAIRNESS APPROACH. John Rawls is best known for this philosophy. (See his book *A Theory of Justice*, 1971). The basic moral question in this approach is: How fair is an action? Is everyone treated the same way, or is there favoritism or discrimination? A subset of this type of justice that is important is *distributive justice*, that is, how should society’s benefits be shared? Actions are ethically acceptable provided they guarantee the fundamental rights of the people and as long as the benefits derived from them are fairly distributed, particularly among the weaker members of society. In its simplest form, distributive justice means that similar people should be treated equally and dissimilar people unequally (Sharp).

RIGHTS. This approach has its roots in the philosophy of the 18th-century philosopher Immanuel Kant. A right is something to which society agrees someone is entitled to. Moral rights are usually considered universal and often labeled “human rights.” Kant’s theory is often simplified to the Golden Rule: Do unto others as you would have them do unto you. For business ethics purposes, it is important to note that rights usually imply reciprocal obligations or duties.

VIRTUE ETHICS. Based on Aristotle’s writings these ethics are end-directed (teleological) in the sense that there is a purpose to human action. Virtue ethics assumes that there are certain ideals toward which every individual should strive, which provide for the full development of our humanity (Velasquez, et al.). Virtues are attitudes or character traits that enable us to be and to act in ways that develop

our highest potential, and include characteristics such as honesty, courage, compassion, and generosity, among others. However, virtue ethics, in its attempt to stress not just morally justifiable decisions but morally admirable character traits, has to struggle with a major problem of cultural relativism. Which images of the good person or the good life are the normative ones? And how does virtue ethics justify such a claim in the face of a bewildering variety of some images, many of them mutually contradictory?

One of the difficulties with these theories is that when they are applied in a given decision situation, they often result in contradictory conclusions, and there is no way one theory can be weighed against the other (Sharp). Students may be uncomfortable that there is no “right answer,” but the different ethical approaches are an excellent way for them to understand value differences, and to gain perspective on what constitutes the “moral” response.

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