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In Succession Planning, What Is Meant by Fairness?

John Berry, Penn State Extension Jan 23, 2017

Perhaps the toughest part about succession planning is figuring out a strategy that all parties consider being “fair.”

It is often easier to identify decisions whose fairness can be questioned than it is to describe what everyone would consider to be a fair outcome or result. Fairness is a personal feeling that makes it difficult to apply a single solution to all cases and situations.

There is no single answer to the question of what is a fair result. Being fair may mean that some people receive more than others receive. Being fair can mean that some people will be treated differently than others.

Fairness can be considered a goal to strive for while being realistic enough to know that many things can affect whether it will be achieved.

In family business succession planning, fairness enters into decisions about the business, the process of selecting a successor, rewarding contributions to the business made by some people and in providing support to people who need it.

The most important decisions the family will make have a fairness consideration in them.

Here are some questions of fairness that come up when considering succession planning issues:

- Who gets what? In what time frame?
- What is the compensation for the next generation that has been part of the business so far?
- How are those in the next generation who don't want to farm to be compensated?
- How many family members can the farm sustain?
- Who has the talent, interest and experience to succeed in farming?
- What kind of changes, if any, need to be made in the way the business, the land, the equipment and other assets are structured to support everyone who wants to play a role?
- Will future farmers need additional training or education to succeed?
- What will be the role, job description and responsibilities of each person who wants to remain involved in farming? Will that change over time? In what ways?

There are also questions about what is fair from the perspective of efforts to strengthen relations within the family and in the context of the family business.

Things get even more complicated when considering what is "fair" for future generations of family members.

At the least, the discussion must go beyond considering how individual family members can act to maximize their personal benefits. There is a shared value to keeping family and business interests intact.

Many people view family farm succession planning as a "zero sum game," which means it is a situation in which a benefit to one party comes at the expense of another party.

However, there is another way to view the situation. It begins with the concept of all family members as "interdependent" and paying attention to how every decision and action on the part of one family member affects all the others.

For example, if older adult family members have their financial and health care needs met in retirement, this places them in a better position to contribute to the social and emotional development of their grandchildren.

Similarly, although sending a young family member to college may add to the family's debt, this individual will be in a better position to contribute to the operations and business decisions of the family farm.

In developing a plan for the future, no one will likely get everything he wants, but everyone should feel that their wishes have been considered and that they have gotten a fair deal relative to what they put into the family business, and relative to the efforts and rewards of everyone else in the family.

Consider this simple example: At the time that Jake died he owned a 300-acre farm. His wife died before him and his four children survived.

The land in the farm is valuable, and everyone knows it. Some of the children want the land to be sold to convert its value to cash.

Some of the reasons given for wanting access to this money include covering expenses such as putting money away to cover college costs for children now in high school and saving toward retirement.

Some of Jake's children who worked the farm want to see the farm continue even if it means having less money available in the near future.

What considerations should all of these children address as they discuss and then decide what happens to their father's farm?

What prospects do you see for an "integrative" solution, which is a solution that meets the needs of the various parties? In other words, is it possible for the farm to continue to function as a farm yet generate some sort of economic benefit for those family members who are looking for immediate financial gain?

John Berry is an ag marketing educator in Lehigh County. This article was adapted from the Penn State Extension publication Farm Succession Planning — Conversations to Strengthen Farm & Family.