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FARMING FOR GENERATIONS

An investigation into the challenges of farm businesses remaining in the ownership of the same family for several generations.

The Chinese proverb '*The best time to plant a tree was twenty years ago. The second-best time is now*' could be adapted for farm succession as '*The best time to start planning for succession was thirty years ago. The second-best time is now'.*

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The majority of Australian broadacre farm businesses are family owned yet few retain ownership of a farm business for several generations. Handing over a viable farm business, accumulating funds for retirement and satisfying the self-interest of family members who pursue non-farming careers is not an option for most farmers. Characteristics of farm businesses whose owners have achieved successful succession for several generations and ways this has been achieved are contrasted with farm business whose owners have not achieved this goal.

Submitted in total fulfilment of the requirements

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ABSTRACT

Some farms remain in the ownership of one family for several generations and others do not. This study is about family farms in Australia used for growing crops, running beef cattle and sheep, or operating with a mix of these activities. Why and how has the same family operated a farm for generations and why and how do other such family farms cease to continue in the same ownership?

This work investigates the question of intergenerational succession of family farm businesses in the context in which there are three main aims (Kaine *et al* 1997) of owners of family farm business. The definition of the three main aims is:

- Provide adequately for retirement;
- Pass on to heirs a farm that has reasonable prospects of being a sound economic proposition and financially viable and has potential for future improvements in productivity and growth of wealth for the farming child or children,
- Provide a share of resources for the non–farming children that they consider being adequately commensurate with their entitlement and that they are content with that share.

There is a large body of work about farm management economics and business growth. Rarely does farm management literature document the process of succession, or investigate, develop and report theory about the many factors that contribute to enabling a farm to remain in the ownership of one family. Studies that concentrate on the human, technical or the economic elements of farm management overlook the question of succession. Usually studies focussing on succession are unburdened by the complexities of farm economics. Knowing how and why farm families manage to 'farm for generations', or fail to do so, remains the domain of the farm families and their stories about attempted intergenerational succession.

A mix of research methods was used to investigate the question of intergenerational succession of family farming businesses, in the context of farm economic theory and

theory about the growth of the firm. Surveys of farmers and agricultural professionals and case studies of the farm succession experiences of families have been documented. The possibilities open for farm families discussed and an analysis of historical records of farm firms has been undertaken. Explorations of the options facing some current farming businesses and what they would need to do now to achieve successful succession have been used to illuminate the research questions about intergenerational succession. Central to the question of farm succession are the attitudes and attributes, experiences and actions of the owner-managers who run farm businesses. The real situations of farm owners, family members and managers, who have been through or will go through succession, have been investigated in this study.

A pilot survey through an advisor network provided an assessment of over 6,000 of the 52,000-broadacre family farms in Australia. The case study method was used to analyse and contrast attributes, attitudes and actions of sixteen family businesses; half of these family businesses will continue farming, half will not do so. The historical records of 100 case study businesses were explored and their stories of succession documented. Succession analysis and planning was done for five current family farm operations facing up to succession.

In 2016, 48 per cent of the 52,000-broadacre farm businesses in Australia had an annual gross value of sales of $230,000, or less. There is no likelihood that farms with such low annual income will achieve the three main aims of succession. Most of the owners of broadacre family farm businesses do not have a succession plan, do not intend to develop a succession plan for their business and do not have the scale to achieve the three main aims. For those farm businesses that have adequate scale, this alone will not ensure there will be a business for the next generation that has reasonable prospects of being a sound economic proposition and financially viable and has potential for future improvements in productivity and growth of wealth for the farming child or children. Farm families cannot achieve the three main aims of succession unless the business generates economic returns and annual cash flows and builds wealth at a level and consistency above the average for the district and the industry. Farm businesses must farm well, over a long time, for the three aims of succession to be achievable and for succession hopes and plans to become reality.

Most broadacre farm families in Australia cannot aspire to achieve the three main aims. The reasons are many and complex ranging from the economics and finance of farming to the scale and medium-term profitability of the business, to planning and intent, and the always-complex interpersonal relationships of families.

This is of course as it must be. How else can the family farms that achieve succession grow, to be able to pass on the farm to family decades hence?

DECLARATION

I hereby declare that this thesis comprises only my original work towards the Doctor of Philosophy. This thesis contains no material previously published or written by any other person except where due acknowledgement has been made in the text.

The thesis is fewer than the maximum word limit in length, exclusive of tables, maps, bibliographies and appendices and complies with the stipulations set out for the degree of Doctor of Philosophy by the University of Melbourne.

Michael Richard Stephens

March 2020

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1 INTRODUCTION

1.1 FAMILY FARM SUCCESSION

Most farms around the world are owned and operated by families (Lowder *et al.* 2014). In Australia, over ninety-five per cent of farm businesses are owned and operated by families (The ABARES 2017-18). There are few cases in Australia where a family continues to farm and several branches of the family remain in the business.

In this study a family farm is:

An Australian primary production business owned and operated by members of one family.

In this study, in general, a family comprises:

A couple (or the surviving parent) the children of that couple, the spouses or partners of the children and their children.

This study has been conducted for two general and one specific reason. The performance of family farms has implications for their owners achieving their goals. Efficient farm businesses contribute to the performance of the national economy and the welfare of the Australian people. Specifically, for farm businesses to continue to perform well over time in the hands of more than one generation, meeting the goals of families of more than one generation means effective, efficient processes of transferring ownership and control of family farm businesses are fundamental.

The research reported in this thesis was conducted and reported to contribute to and help inform public discussion about the survival, growth and succession of family farms

and to help understand why and how some farm businesses have remained in the ownership of a family for several generations while others have not done so. [1]

Typically farm management textbooks in Australia and internationally do not emphasise succession of the farm business or growth for the purposes of succession. Exceptions include Wilkinson (2009), Wilkinson *et al* (2012). Mostly, studies of farm businesses focus primarily on the current farming generation, emphasising building farm businesses to meet goals of that generation, such as the business growing to remain competitive and survive and meet the more pressing family goals during the owner's tenure. Less common is the focus on explicit aims of farm transfer or succession and the tactics and strategies to achieve such ends to the fore.

More studies about farm transfer or succession are found in the rural sociology discipline, considering the issues from a rural sociology perspective (e.g. Inall 2015; Barclay *et al.* 2012; Chapman Eastway, 2016). Studies in these traditions are outside the discipline of farm management economics and invariably struggle to deal well with the complex issues of that discipline. For instance, much neglected is how farm families meet the challenge of creating the wealth that makes succession a realistic possibility in an industry that is subject to much risk and uncertainty, such as from volatile weather and markets and financial conditions.

For many farming families and their advisors the subject of succession is irrelevant. Some people do not intend to hand on the farm to the next generation. This study is not relevant to those people, though over time growth and succession of some farms requires some other farmers to be willing to sell out of farming.

Causes of family farm businesses not achieving succession for several successive generations, even when some of the family may have appreciated having the choice at least, include fundamental economic phenomena, as well as management and family

[1] In Australia, where succession to the next generation is achieved, it is unusual for more than one member of the successor generation to remain involved in the business. It is usual for siblings to develop separate businesses before handing over the business to the subsequent generation.

reasons. Family reasons for succession failure, even when having succession as an option may have been the preferred option of the farming generation; include offspring not wishing to be farmers and poor family relationships. In other cases, even if the option of continuing in farming would have been preferred by the farming generation and the upcoming generation, the farm business might not have been able to continue with ownership in the family because the farm business had become uncompetitive, or the owners had inadequate control of resources. These reasons in some cases reflect actions and inactions of past and current generations of management including inadequate or inept planning to achieve the growth of the businesses that is necessary to create choices about the possibility of succession.

Successful succession involves more than handing on the farm. Hicks *et al* (2012) claimed that the art and science of succession planning in Australia is underdeveloped, while Rowe (1995) claimed the failure to plan farm succession was a significant threat to the survival of family farm businesses. Crosby (1998) found that poorly handled transfer of the ownership of a family business could often result in high levels of stress, financial hardship and deep divisions between family members. Chapman and Eastway (2016) found reluctance of the older generation in a farm business to discuss succession and of the younger generation to take on farming roles resulted in more sales of farmland than otherwise would be the case. Kaine *et al* (1997) pointed out the challenges for Australian farmers attempting to maintain the three aims of a (i) viable farm business for the next generation, (ii) provide for their own retirement and (iii) treat all their children fairly. Regarding this latter challenge, parents and their children often have differing opinions relating to the definition of *fairly.* One test of 'fairness' is the extent to which all the children are satisfied with the results of the succession process.

The basic premises of this study are:

i. ordered, planned and successful farm business succession is a vital issue in modern agriculture because it delivers benefits to the people directly involved and to the wider economy and community

ii. the ways of achieving ordered, planned and successful farm succession are relatively under-studied, particularly from the perspective of farm management economics.

There are three main aims in family farming which are defined in this study as being:

iii. provide adequately for retirement;
iv. pass on to heirs a farm that has reasonable prospects of being a sound economic proposition and financially viable and has potential for future improvements in productivity and growth of wealth for the farming child or children,
v. provide a share of resources for the non–farming children that they consider to be adequately commensurate with their entitlement. They are content with that share.

Given these premises, the research question of this study is:

What abilities, attitudes, actions and strategies enable farm businesses and farm families to (i) achieve the aims of providing adequately for retirement of the current farming generation; (ii) hand on a farm business that is an economically efficient and financially sound operation with sound prospects for increasing productivity and building further wealth; and (iii) provide fairly for all relevant family members.

A further objective was to develop a model which enabled an analysis of what is and what might be for some real succession planning situations. This led to the five Succession Analysis and Planning (SAP) Case Studies.

1.2 INDUSTRY INVOLVEMENT OF THE AUTHOR

This study draws on the experience, knowledge and insights gained during the author's sixty years of working in agriculture in a wide range of practical roles: working on farms, managing farms, and establishing, operating and building an agricultural consulting business which included a rural employment agency. Consulting in agricultural

employment led to working with farm families in succession planning which has been a major part my work since the mid-1990s. The indelible sum of my experience working on and managing farms, and consulting and advising farmers about their businesses, along with 25 years of experience gained as a family farm succession practitioner, has determined the nature and focus of the research conducted in this study. My experience has helped form the questions asked and the lessons learned are inherently part of the conclusions reached from the formal research that has been conducted.

1.3 OUTLINE OF THE THESIS

Rather than placing the entire literature review in one chapter some references to the literature have been placed within successive chapters at appropriate points throughout the thesis.

Chapter Two, *The Background to the Study*, includes a short history of the development of agriculture since the arrival of Europeans, including land settlement policies that lead to the small farm problems that are inimical to successful succession. The current situation in relation to farm size, measured by the annual value of total cash receipts, is discussed. Chapter Two also contains an assessment of the place of the family farm in contemporary Australia, the combined effect of rising land values and declining terms of trade on farm succession and financial control in relation to the three main aims of farming. The factors discussed in Chapter Two are important and provide some explanation as to why so few broadacre family farm business have a succession plan.

Chapter Three, *Literature Review*, examines the terms; Farm Management, Business Growth, Survival and Succession. Some international studies relating to farm intergenerational survival and discussion are included. Chapter three concludes with a definition of the family farm. Further literature is reviewed is subsequent chapters

In Chapter Four, *Elements of Business Theory*, underpinning theories relating to growth, scale, farm business financial management are identified. The effect of capital gains tax on growth is reported while in Chapter Five, *The Research Question, and Method* is set out.

Chapter Six, *Data Sources*, contains an outline of the current situation and descriptions of the surveys and the case studies including the Succession Analysis and Planning studies.

Chapter Seven, entitled *Succession Questionnaires, Case Studies and Historical Records*, contains the data from the questionnaires, the sixteen major case studies, the 100 historical records and the succession analysis and planning case studies. In the sixteen major case studies the history and performance of eight farm businesses that continue to operate as viable businesses are contrasted with eight farm businesses that have been sold, or have had to change direction, or remain in the family but are no longer economically or financially viable .[2]

In the farm case studies conducted, the characteristics, attitudes, and actions of the people in the farm businesses have been described. The focus is on the detail of the farm businesses the families have been and are currently managing. The one hundred historical records allow some descriptive statistical analysis and provide information that adds to the overall picture of farm succession. To complete the case study analyses of success or failure in farm succession, and to complement the historical emphases and present an applied, forward-looking perspective, five real case studies analysing the succession options and plans of family farm businesses, as they are currently operating and performing, have been conducted. Examination of five current succession-planning cases provides an opportunity to look ahead at some real-world succession plan options and to analyse the financial choices and consequences of alternative succession strategies. The five cases consider the aspirations and intentions of all members of the farm families to ensure that each person can make informed choices about their future.

Chapter Eight, the concluding chapter entitled *Overall Findings and Discussion* returns to the research question and the initial research premises. The management

[2] A viable farm business is defined by the researcher as ' A farm business with a reasonable chance of earning competitive returns to capital and able to generate sufficient annual net cash flow in the relevant future to meet the owner's goals. Farm income may be supplemented by off farm income.

implications of the need to plan for discussion are identified and discussed. Chapter Eight concludes with some commentary on wider issues of government policy.

A series of appendices includes a Table of Events, detail of the survey questions and results, data provided by third parties, and summaries of the case studies. A separate document, which reports fully on the case studies, is available.

In summary, the steps in developing this thesis were:

(i) Observing the difficulties relating to succession in broadacre family farms.
(ii) Developing definitions of broadacre, family farm and succession
(iii) Defining the research question.
(iv) Deciding on the research methods
(v) Collecting and assembling data
(vi) Completing 16 contrasting case studies.
(vii) Investigating 100 historical records.
(viii) Forming a succession planning method.
(ix) Conducting a representative succession analysis and planning case study
(x) Completing five succession analysis and planning case studies
(xi) Drawing conclusions from the data and relating these conclusions to established theory.
(xii) Summarizing the story.

Chapter two which follows contains a background to the study and a short history of the development of the small farm problem in Australia. The place of the family farm in contemporary Australia and the effects of increasing land prices and declining terms of trade are examined.

2 BACKGROUND TO THE STUDY

Before discussing in detail, the three main aims of family farming, the context of broadacre[3] farming within the Australian economic and natural environment is set out. A short history of land settlement in Australia and government policies which controlled it and lead to the 'small farm problem 'is included. This is followed by an outline of the current situation, in relation to the size of Australian Broadacre farms, as measured by the gross value of annual sales. The wider Australian community views family farmers as a special group in society. Chapter two concludes by outlining the place of the family farm in society, the challenges for farmers from increasing land values and declining terms of trade and how those issues affect the three main aims.

2.1 THE GENESIS OF THE SMALL FARM PROBLEM IN AUSTRALIA

As with many developed democracies, Australia has a small farm problem. This limits the number of farm businesses where farm family succession, of a successful business, is possible. British Government policies, implemented by Governor Phillip in the late 1700's started to determine the size of farms and have influenced the structure and efficiency of agriculture in Australia ever since.

Roberts (1968) noted that in 1787 political expediency and economy were the main drivers behind establishing the penal colony at Botany Bay. Ward (1987) noted that 'Philip (the expedition leader and first Governor) had little knowledge of farming' (p. 199). Hughes (1988) devoted a complete chapter to what he termed 'The starvation

[3] Sheep, Beef Cattle, Cereal cropping and or any combination of the three.

years'. The drive, in Australia, from Government, to establish free settlers who could be independent and produce food and fibre for sale was intensified because newly settled Australians, as described by Tench (Tench and Flannery, 1996) nearly starved:

> *The dread of want in a country destitute of natural resource is ever peculiarly terrible. We had long turned our eyes with impatience towards the sea, cheered by the hope of seeing supplies from England approach. But none arriving. (p. 92)*

In addition, Roberts (1968) provided the first evidence of the conflict in land settlement policy. The British Government envisaged the development of farming land would be accomplished through individuals with small holdings but Phillip realised that people with expertise and capital were required. Governor Phillip concluded that the settlement would not progress while it depended for its food on gangs of convicts working on government farms. (Clark 1962, Ward 1992 and Lees 1997), Phillip concluded that in future the settlement depended on the attraction of free settlers and the granting of land to ex marines and ex-convicts. Phillip encouraged free settlers with capital and farming knowhow.

The squatters tried to take over, but the government ensured that small landowners had opportunities to purchase land, Clark (1962), Roberts (1968), Ward (1992), Tench and Flannery (1996). Adventurous pioneers took up land, Roberts (1935) Clark (1962) Crowley (1987) and advantages were given to selectors (Ward 1992). The Robertson Lands Act (Lands and Occupation Act 1861) which controlled the release of land, were intended to give advantages to small landowners but as Ward (1992) points out '*generally failed, then, to accomplish what was ostensibly their prime purpose* (p. 175).

While Government officials were busy drawing lines on maps, no matter how diligent those government officers were they were unable to keep ahead of squatters and selectors. Again Ward (1992) points out that the squatters acquired millions of acres in freehold by dummying *'the wife, children, friends or permanent employees of a squatter would select on his behalf the best parts of his run, in order to keep out selectors'* (p. 173).

It is clear that for successive decades in most cases the estimates of the amount of land needed to have a viable farm were optimistic, that not enough land was allocated and that in many cases land which was allocated had been classified beforehand as being unsuitable for small scale agricultural production (Wadham 1943).

From Federation in 1901 low income for farmers led to the Farmer's Debts Adjustment Scheme first in Western Australia in 1930, then in other states and to the Rural Reconstruction Commission of the 1940's. This was a recurring theme up to the 1960's. During much of this period, the economics of farm size in Australia was being debated (Wadham 1943). The importance of family farms and government policy in creating the 'small farmer problem' was summarised by Watson (2013):

> *The virtues of family farms and support for the concept of family farming are not just about economics and the subtleties of risk management, far from it… Largely as a reaction to traditional land tenure arrangements in Britain and the unequal status of landowners, tenants and labourers, early administrations and governments in the Australian colonies were quick to assert the primacy of owner-operated farms as a positive force for social cohesion – the so-called yeoman ideal that dominated the approach to closer settlement. (p. 12)*

Specifically, in relation to closer and soldier settlement and the combined contribution to the small farm problem, Watson (2013) continued: *Closer settlement and its later variant, soldier settlement, worked on the dubious egalitarian principle of the 'home maintenance area. (p.12)*

Watson argued the scheme was dubious, not because it was egalitarian but because it had an inflexible application which condemned early settlers to a frugal existence with little chance of adapting to economic and technical changes. Administrators were keen to settle extra farmers and were quick to respond to any temporary upturn in prices or seasonal conditions. This led to the establishment of many small farms. Watson (2013) concluded that '*the consequent small farm problem persists today' (p.12).*

The importance of family farms and government policy in creating the 'small farmer problem' was in part a rejection of the land tenure arrangements in Britain. Free settlers in Australia were determined to avoid the unequal status of landowners, tenants and labourers. Watson (2013) summarised the situation; '*Australian colonies were quick to assert the primacy of owner-operated farms as a positive force for social cohesion – the so-called yeoman ideal that dominated the approach to closer settlement'* (p. 12).

In 1960, Australia had approximately 250,000 farmers (CBCS, 1961, p. 883) and this count included some small land areas of approximately one acre (0.4ha). In 2014, following a change in classification criteria, there were 123,091 farmers in Australia (ABS, 2017). As well as the re-classification, there had been massive structural adjustment.

By 1967, it was apparent that in the senior levels of the public service there was recognition that closer settlement and development was being replaced by structural adjustment. The policy aim of reducing the size of big holdings to create small farms was reversed and the aim became one of encouraging an increase in farm size. McKay (1967, cited in Edwards and Watson, 1978), wrote that *'the higher echelons of the agricultural bureaucracy had recognised that 'reconstruction' and 'adjustment' have replaced 'development' on the agricultural policy agenda'* (p. 192).

Anderson (1972) provided further pertinent commentary on the small farm problem of the time. He argued that policy makers had become oriented to ensuring that small farmers were able to stay on the land. This policy stance of protecting the small farmer inevitably created an environment which made it more difficult for larger, commercially viable farms, whether family or corporate, to expand. Anderson (1972) surmised that:

> *Increasingly, therefore, Australian rural policies become oriented towards not the family farmer (although this appellation may be used), not the commercial farmer, nor even the viable efficient farmer, but the small farmer. Policies have been urged and adopted with the chief aim of keeping small farmers on the land, or if this should prove impossible, delaying their demise as long as possible. (p. 189-190)*

Inall (2015) wrote that in his Presidential Address to the Eleventh Annual Conference of the Australian Agricultural Economics Society in February 1967, McKay[4] explained structural adjustment with:

> *The first detailed analysis of the small farm problem in Australia. In doing so, he laid the foundations for debate in government and university circles about the implications for the welfare of farming families and the need for structural adjustment… farm incomes were too low. (Inall 2015, p. 51)*

McKay had noted that many farms were too small to sustain a family or allow for reinvestment in their farms. When confronted with occasional poor seasons or periods of low prices, or both, many small farm businesses were unable to meet financial commitments. The problem was systemic, farms were too small, much of the land was marginal and many farmers had limited manageable ability.

McKay could have added that, while the number of people in most families at least doubles in each generation, most farm businesses grow at a slower rate and this limits the opportunity for family members to farm.

Edwards and Watson (1978) noted the involvement of government in creating the small farm, low-income problem and the need for structural adjustment. Davidson (1981) summed up the issues when he asserted that the history of government policy in Australia, in relation to land settlement schemes, stands as testament to the lack of informed rational decision-making.

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[4] McKay, F. Executive Director of the Bureau of Agricultural Economics (BAE) from 1963 to 1968,

All farms, large and small, were protected until the 1980's when the Hawke labour government: deregulated markets in the financial sector; commenced to deregulate the cereal grains and dairy industries; floated the dollar and implemented the industrial accord (Kelly 1992, p. 54). The Australian economy operated under three general rules, described by Brett (2011) as (i) central wage fixing, (ii) tariff protection of manufactured goods which, together amounted to (iii) protection all round. The reasoning was that protecting both manufacturing and agriculture would guarantee a growing domestic home market for the products of both sectors. Protecting labour had stemmed from the 'Harvester Case' of 1919 (Brett 2011) in which Justice Higgins ruled that worker protection was as important as survival of firms. The Country Party's 'McEwanism' of the 1950s supported tariffs and protection for all (Botterill, 2003). Despite strong opposition from the conservative forces, the sheltered nature of economic activity in Australia changed dramatically with the freeing up of the economy from the 1980s (Brett, 2011).

Over the period covered by this study the prevailing view in relation to trade protection has changed. For many decades, farmers and their representatives had ensured that they were protected in economic activity. By the mid 1980's, in the main, farmers and their industry bodies, including peak councils, supported the reduction of tariffs and non-tariff trade barriers in the secondary industries. There were periodic calls for government to protect some sectors of agriculture, such as in the dairy industry in 2018-19, but such calls have been isolated. As Botterill (2003) described it, Australia:

> *Moved from an interventionist agricultural policy to the leadership of the Cairns Group during the Uruguay Round... the dismantling of price supports, stabilisation schemes and the myriad of other government interventions in agriculture and suggests that this process was facilitated by timely political developments which allowed agricultural economists to gain the reform for which they had been calling for years. (p. 2)*

During the 1970's and 1980's the importance of economics of scale was again debated. The small farm problem was exacerbated by poor seasons and low wool and beef prices. Smaller farms were effected to a greater degree than larger farms. Whatever the scale

of their business farmers had to learn to cope with change, with Makeham et al. (1979) providing strategies to cope with such change. The authors set out the history of events, which led to on farm economic problems and provided methods of farm management and financial assessment and control. Botterill (2003) provided further commentary on the situation, including the small farm problem and described changing and ad hoc agricultural policies from the mid-1940s to the early-1970s in the following terms:

> *Australian agricultural policy in the period following the Second World War until 1972 was largely characterised by ad hoc decision making in close consultation with affected producer groups… there was no cohesive government statement of policy objectives and policy decisions for the farm sector until 1974. (p. 6)*

The lack of cohesive national policies led to what Throsby (1972) described as *'a bewildering array of policy instruments which directly or indirectly affected farm policies, including two-price schemes, import controls, output subsidies, restrictions on substitutes and so on'* (p. 6).

As well as policy measures, which were directed specifically to agricultural products, government provided drought, taxation and other concessions to primary producers. These policies have favoured agriculture but in so doing many have favoured the continuation of businesses ill equipped to become established and to succeed and survive. Examples include post-war land settlement schemes, subsidised large-scale irrigation schemes to produce milk and fruit that had to be further subsidised to be profitable. One of the challenges is that while the Commonwealth Government may set the framework for policies, the State Governments have the responsibility for implementing the policies. This, along with the complexities of Federal-State constitutional and fiscal arrangements and relationships, complicates and creates further difficulties in a national approach to government policy.

One example of confused or inconsistent policy is the use of the term viability in policy deliberations. The Industry Assistance Commission Report (IAC, 1984) proposed a standard definition because there were different interpretations of the term 'viability'

by each State. In some cases, differences between the jurisdictions were minor, but it is difficult to have a national policy when each of the States and territories charged with the responsibility of policy implementation acts independently and differently. This situation, of each State acting differently, commenced when statehoods were declared in the 1800's Campbell (1982). It continued through all the schemes of soldier and closer settlement (Wadham *et al.*, 1957), structural adjustment, drought relief and exceptional circumstances world wars. Edwards and Watson (1978), Botterill (2003) and Davidson (1997) and *'besets an array of other issues to this day'*. (Watson 2013)

These Federal and State arrangements have allowed the development of policies which have led to 'The Farm Problem' or the 'Small Farm Problem', Inall (2015), Watson (2013), Edwards and Watson (1978) Campbell (1967) and the 'Crisis On the Land', Anderson (1972). All describe hard working people who, for a variety of reasons, are in a situation where they are unable to manage financially. Inevitably, each author accepts that in some way the poor situation which farmers find themselves in is a 'National Problem'.

The current structure of agriculture in Australia, in which a small number of farm businesses produces the vast majority of farm produce, has occurred despite all the efforts of government to create and maintain a class of small landholders running viable businesses. Malcolm *et al* (1996) found that '*Governments first actively subsidised and promoted the establishment of small family farms, then actively encouraged the amalgamation of small family farms into larger family farms' (*p 436).

A chronology of major events leading to the current situation is shown in Appendix 1.

2.2 THE CURRENT SITUATION OF BROADACRE FARM BUSINESSES IN AUSTRALIA

The vast majority of broadacre family farmers will not achieve the three main aims of family farming because Australian agriculture is characterised by a large proportion of small farms. In Table 1, farm businesses are segmented by dollar output measured as

'Total Cash Receipts' or value of sales. Commodity prices in the 2015-16 financial year were high by historical standards and most areas of Australia were experiencing a reasonable season.

Table 1: Distribution of Broadacre Farm Businesses by Value of Sales (total cash receipts), 2015-16

Distribution of broadacre farm businesses by value of sales (total cash receipts), 2015-16

Source: Australian Agricultural and Grazing Industries Survey (AAGIS)

Sales class	Number of farm businesses no.	Share of population %	Cumulative share of population %	Share of value of sales %	Cumulative value of sales %
Less than $70 000	5470	10.5	10	0.9	1
$70 000 to $120 000	8290	15.9	26	2.8	4
$120 000 to $170 000	6010	11.5	38	3.1	7
$170 000 to $230 000	5300	10.2	48	3.7	11
$230 000 to $300 000	4710	9.0	57	4.4	15
$300 000 to $400 000	4200	8.1	65	5.1	20
$400 000 to $500 000	3000	5.8	70	4.8	25
$500 000 to $620 000	2630	5.1	76	5.2	30
$620 000 to $760 000	2240	4.3	80	5.5	36
$760 000 to $900 000	1930	3.7	84	5.7	41
$900 000 to $1.1 million	1700	3.3	87	6.0	47
$1.1 to $1.3 million	1510	2.9	90	6.3	54
$1.3 to $1.6 million	1400	2.7	93	7.2	61
$1.6 to $1.9 million	1140	2.2	95	7.1	68
$1.9 to $2.5 million	970	1.9	97	7.5	75
$2.5 to $3.1 million	620	1.2	98	6.0	81
$3.1 to $4.0 million	470	0.9	99	5.9	87
$4.0 to $5.0 million	240	0.5	99	3.7	91
$5.0 to $7.0 million	190	0.4	100	4.0	95
$7.0 to $10.0 million	80	0.2	100	2.3	97
Greater than $10.0 million	40	0.1	100	2.6	100
Total population of broadacre farms	**52 130**		no		
Total value of sales (gross)	**29.1**		$ billions in 2016-17 dollars		

Note: AAGIS excludes farms with an estimated value of agricultural operations of less than $40 000

Source: Martin, P, ABARES, pers. comm

From Table 1 it can be seen that forty-eight per cent of farm businesses had total cash receipts of $230,000 or less. Farm Businesses with annual cash receipts of $230,000 or less to cover variable and overhead costs, service debts and leave a return to capital have limited capacity to reward labour, management and capital appropriately or service much debt.

The ABARES identifies two types of farm in relation to the business of farming. One type is 'farm businesses' and combines the services of land, labour, capital and management in production of agricultural products (ABARES, 2019). The other type is described as 'farm households' which are concerned with the welfare of household members and make separate, but related, decisions to farm businesses (ABARES, 2019).

2.3 THE PLACE OF THE FAMILY FARM IN CONTEMPORARY AUSTRALIA

Three main aims of family farming are defined and to achieve them any farm business must consistently perform at a very high level to achieve them. The aims are:

i. provide adequately for retirement,
ii. pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children and,
iii. provide sufficient resources for the non–farming children to be satisfied with their share of the family assets

The members of farming families may choose to achieve one or more or all of the three main aims and in some cases individual self-interest may be satisfied without the eventual distribution of family assets to individual family members being anywhere near equal; in other cases the farm will be sold.

No matter what an individual family may decide, family farming has a special place in the minds of much of the Australian public[5]. Although farming is often described as one of the most noble of occupations only a small number of broadacre farm businesses have the scale to be able to achieve the three main aims.

[5] The public reaction to the plight of farmers during the winter of 2018 and movements such as 'Blazeaid' are a demonstration of this 'special place' The fact that in some cases Blazeaid volunteers spent time 'helping poor farmers' who have a net worth of many millions of dollars seems to be unimportant.

Davidson (1997) explained it thus: *The farms owned and operated by a single family have always been the main type of production unit in Australian agriculture. (p. 53)*

Lloyd and Malcolm (1997) observed the confused role of governments, which on one hand developed policies, which encouraged a proliferation of small farms and on the other hand encouraged farm amalgamation:

> *The potential for large-scale organisations of agricultural production has intrigued economists for centuries. Over the more than 100 years of family farming in Australia, governments have firstly actively subsidised and promoted the establishment of small family farms and then also actively encouraged the amount of amalgamation of small family farms into larger family farms. (p. 72 and 73)*

In contemporary Australia, the amalgamation of mid-sized farms has resulted in a 'disappearing middle' and a few very large farm businesses. In 2015-16, there were 310 broadacre farm businesses with annual cash receipts of $500,000 or greater. At the same time, there were 33,980 with annual cash receipts under $400,000 including 19,770 with annual cash receipts of under $170,000. Those figures represent 65 per cent and 38 per cent, respectively, of the 52,130-broadacre farms (Table 1).

Notwithstanding the very large percentage of very small farm businesses: 'the family business has remained the dominant form of business organisation, though the scale of the business has increased markedly' (Lloyd and Malcom 1997, p. 73.).

The majority of small farm businesses have off farm income and this was seen as an important income source in the majority of case studies in this study. Although they lack scale, small farm businesses can be efficient particularly if the farm is treated as a part time occupation and work is done for off farm income. Commenting on this efficiency Lloyd and Malcolm (1997) noted that:

> *The family farm has survived because it is an efficient form of business organisation, but this survival will depend on the continued ability of family farms to expand gross revenue and to reduce overheads and, sometimes, to reduce variable costs per unit of output. (p. 73)*

For many businesses, it is difficult to achieve the combination of increasing the gross revenue while reducing the cost per unit of output. Some farms will achieve these two aims simply by moving towards the optimum[6] output by increasing stocking rates, improving crop yields or reducing costs. Most farms can achieve a modest increase in stocking rate or crop yield and many can reduce costs, but the manager must concentrate. It is rare to find a situation where the farm manager can achieve optimum levels of output and have time to grow home use produce such as meat, milk, fruit and vegetables which were all expected of a farmer in a 'home maintenance area' farm. This production was seen as part of our culture as noted by Lloyd and Malcolm (1997); '*the family farm and, in Australia, the related concept of the home maintenance area are, part of our culture - a sociological institution as well as an economic basis for agriculture'* (p. 73).

The family farm was regarded as a robust form of business. However, there can be pressure on farms for change through the accumulation of poor returns over a period of poor seasons and / or poor prices. In the long term, losses accumulate while profits dissipate. While acknowledging these challenges Wright and Kaine (1997) observed *'the family farm is arguably the most robust firm in Australia'* (p. 96).

Part of the robust nature of family farm businesses is because family members are usually well connected to the community, Alston (1997) wrote 'f*arming families are likely to have kingship connections within their locality' (p. 107).*

While Alston's view holds true that while farming families remain on the same farm in the same district, many families who have been able to achieve the three main aims have been prepared to buy and sell farms as opportunities arose. This has often resulted in successive generations having to establish themselves in a district that for them is new.

In some families the 'home 'property will be held for generations but other parcels of land will be sold so as other land may be purchased. The importance of land ownership

[6] An optimum stocking rate is somewhere between the conservative and the theoretically possible.

is that it can provide security, self-sufficiency and certainty about the future. Historically, self-sufficiency implied growing farm produce for home use. The family farmer could partly remove the family from the vagaries of the market.

Towards the end of the Second World War the Australian Government set up a Commission, the Rural Reconstruction Commission, which, in part, was given the responsibility of making recommendations in relation to soldier settlement. Landownership was seen as a reward for service and as Lloyd and Malcolm (1997) observed '*the Rural Reconstruction Commission (1944) mentioned the political, emotional and traditional causes of pressure for land ownership and suggested that land ownership implies security, a freedom from interference and a continuity of existence on one property'* (p. 73).

They and the Commission were commenting on a time when self-sufficiency was the norm. Lloyd and Malcolm (1997) further note that '*still, there is nothing sacrosanct about family partnerships as a form of business organisation' (p.73).* In many cases the people involved in those partnerships would not choose each other as business partners. Often family members have been drawn into unworkable situations. The authors observed that many people in those unworkable situations agree that:

> *The focus in business organisation ought to be on arrangements comprising a small number of people who are generally actively involved in the ownership, operation and management of the farm and equally able to bear the sacrifices necessary to whether the periodic low income and expansion phases commonly such arrangements have been based on close family ties.* (Lloyd and Malcolm 1997, p. 73)

However, many consider that they would be better off choosing to work with an unrelated group of people rather than working with family members. Stayner (1997) explained the tensions in family farming thus, *'on the other hand, our culture places a high value on the integrity and stability of 'the family'. Since the economic unit of the farm business is closely entwined with the social unit of the family, there will inevitably be tensions and conflicts'* (p. 125).

Although Elliott (1997) claims that there are no moral reasons for regretting the displacement of family farming by corporate farming the wider community is sympathetic to the plight of the family farm, but that sympathy does not appear to extend to corporate farming. The paradox here is that for succession to be possible many families will choose to be 'corporate like' in the way they build and conduct their businesses.

A further aspect of the discussion about what is special about family farms is a hangover from adherence to primogeniture. Some people see themselves as stewards and say 'it was not ours to sell'. Families are held in what Voyce (1997) termed 'straightjacket' *circumstances create additional problems in transferring the farm to the chosen inheritor. These can be described as the 'straight jacket' and buyout' problems.* (p. 202)

2.4 LAND VALUES, DECLINING TERMS OF TRADE, FINANCIAL CONTROL AND THE THREE MAIN AIMS

The value of assets is determined by the expected net annual earnings and consideration of risk, tax and liquidity. The expected annual net earnings from both owning and using an asset determine the value of that asset such as farmland, the required (discount) rate of return, considering risk, liquidity and tax implications. Apparent divergences between the sale price of a parcel of farmland and likely annual net earnings are often the result of expectations about capital gains for reasons other than the profitability of its current use, or different acceptable rates of returns of different investors, or benefits of adding marginal parcels of land to an existing farm.

Nevertheless, simplistic questions about the price of land in relation to its apparent use value are not new. In the 1940s Wadham (1943) wrote *'everybody knows that high land values are a problem which ought to be faced. Yet surprisingly little is said about the subject in public, although a good deal is muttered in private'* (p.84).

When considering the increasing cost of land in relation to annual operating profits that can be generated the ABARES (2012) reported:

> *The ratio of average land price per hectare per total cash receipts per hectare more than doubled from around 4:1 before 2001-2 to around 10:1 in 2009-10 for broad-acre farms. The ratio increased from 7:1 to 15:1 in the high rainfall zone and from 4:1 to 8:1 in the wheat sheep zone. The largest increase was reported in the pastoral zone where the ratio increased from 4:1 to 10:1. (p. 41)*

This trend is more pronounced in the pastoral zone and there are ripple effects along major corridors between capital cities and provincial centres and surrounding large towns and capital cities. The ABARES (1987) reported that '*nominal land values for the broadacre sector increased rapidly from the mid 1970's peaking in 1984-85. Real land values [in 1952-53-dollar values] had a slight upward trend*' (p. 13).

The report went further:

> *Land values in 1986/7 have fallen below the long-term trend, reflecting in large part the poor prospects and uncertainty of returns in the cropping sector. The decline in average land values in the broadacre sector over the period 1985 to June 1987 is predicted to be twenty-five per cent in real terms. (The ABARES 1987, p. 13-14)*

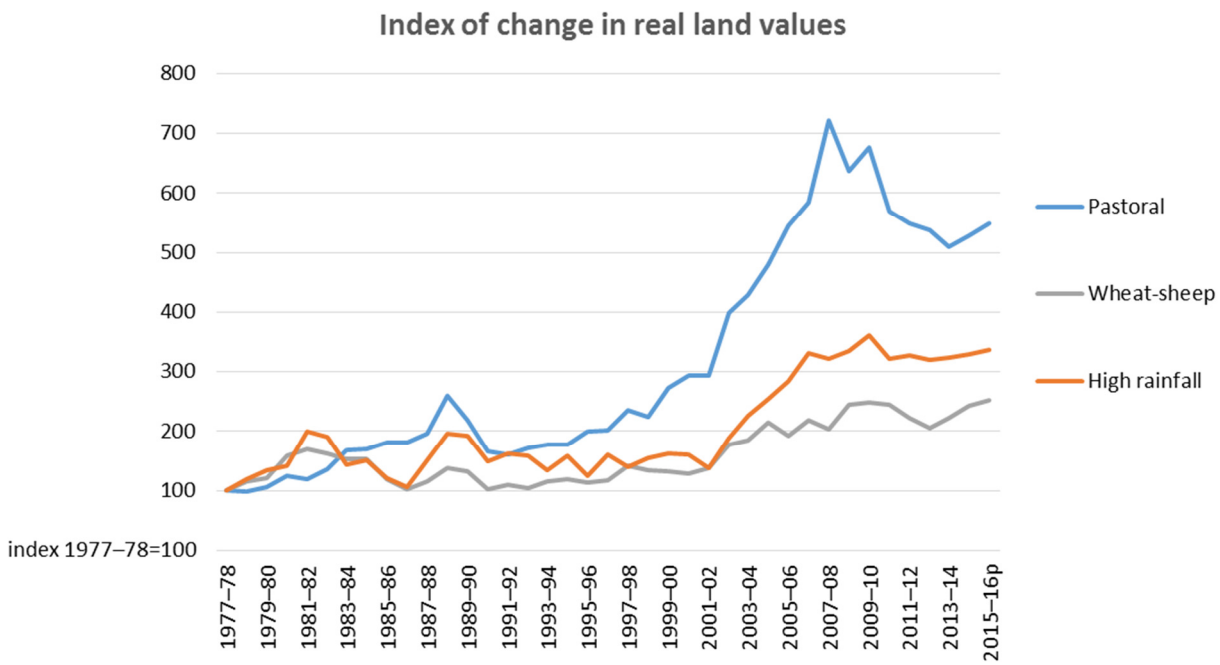

Figure 1: Land Prices for Broadacre Farms by Zone

Source: Martin, P, The ABARES, pers. comm

In Figure 1 it is shown that over a long period, the real cost of land has risen and this has contributed to the declining terms of trade (as shown in Figure 2). As farmers deal with declining terms of trade the past trend of increasing productivity has stalled (Figure 3). With exceptions in some industries (e.g. high rainfall cropping) in many regions the productivity increases, which historically have enabled farm businesses to maintain profit and 'stand still' appear to have stalled.

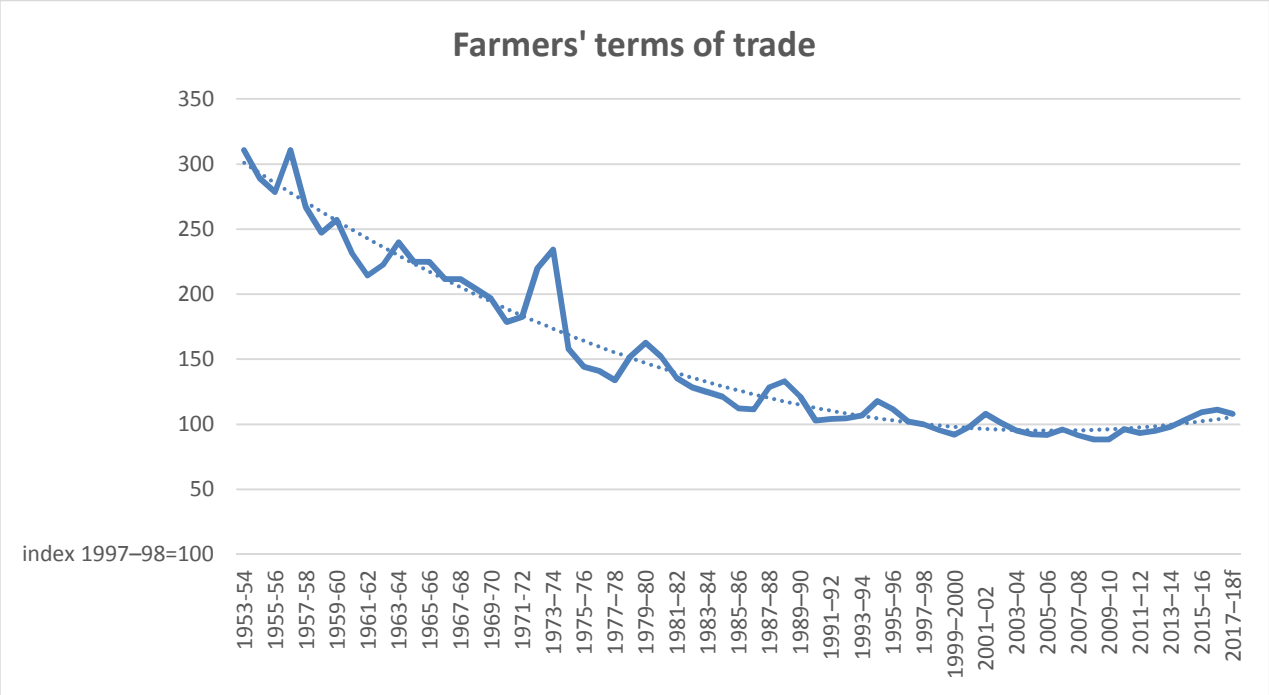

Figure 2: Declining Terms of Trade

Source: Martin, P, The ABARES, pers. comm)

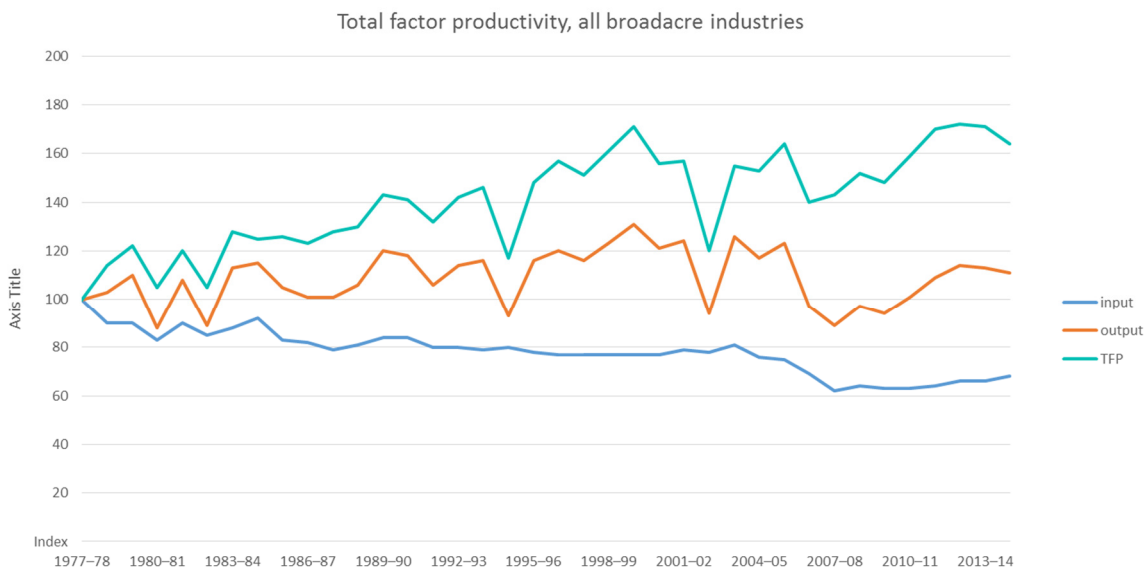

Figure 3: Broadacre Total Factor Productivity in Australia, 1977 – 2014

Source: Martin, P, The ABARES, pers. comm)

Whilst the increase in the net value of farm production has been modest, land values have increased and consequently wealth has been created. The quantum of wealth creation depends on the purchase price, annual profitability, tax strategy and the asset sale value or price at a later date. The increase in wealth, skewed as it has been toward increasing land values, makes achieving the three main aims of farming more difficult.

The availability of capital at relatively low interest rates from the early 1990's has coincided with the international push for more food production because of an increasing world population and growing household incomes in emerging economies. Simultaneously, partly due to urbanisation, changing climatic conditions and to the reallocation of water resources, there is a reduction in the area of land and volume of water available globally for agricultural production. The combined effects have resulted in frenetic activity in relation to land purchases. In order to achieve the three main aims, farm-businesses need to grow. Competition for land makes growth more difficult to achieve.

In addition to the external factors effecting farm businesses, non-farming and competing goals of family members, poor family relationships and poorly managed succession arrangements are characteristic reasons for family farm businesses failing to remain profitable and financially viable businesses for several generations. When the inherent infertility of much of the Australian landscape and the recurring droughts, low rainfall and high land prices are combined, successful growth of a farm business is very challenging. The histories of family farm businesses that survive for several generations and remain profitable and viable businesses are characterised by a small number of key successful decisions and actions at critical times, often in times of extreme circumstances.

Notwithstanding the increase in capital growth, the increasing difficulty of managing a farm profitably is shown in the 2016/17 Victoria Livestock Farm Monitor Project data in (Figure 4). An increase in capital growth can make the three main aims more difficult as non-farming members of the family read of escalating land values and want their 'share'.

Further, partly because of the increase in land values, in some areas the Return on Equity and Return on Assets from farming in 2016/17 in real terms trends down.

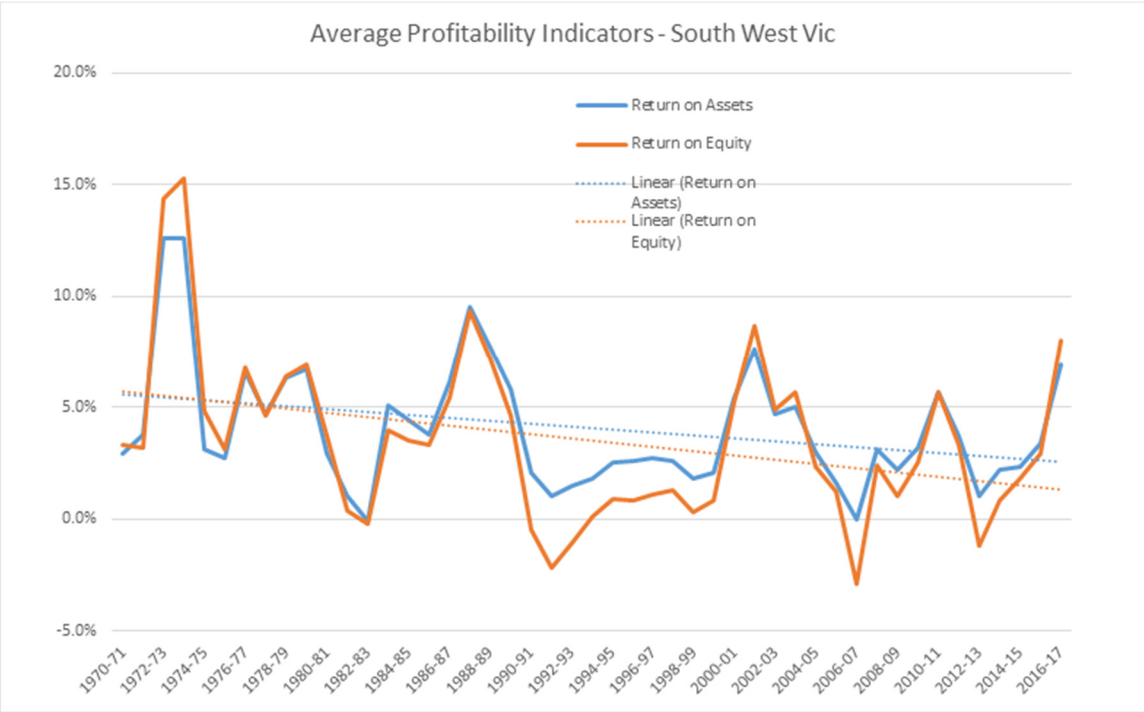

Figure 4: Average Profitability Indicators (ROA and ROE) – South West Victoria

Source: DEDJTR, 2017, adapted from Table A17, pg. 31

Commenting on the pressures of real rising costs and prices on maintaining farm profit Mauldon, (1973) observed:

> *Two related features of contemporary agriculture are making control and planning for control increasingly important. The first is the reduction of the gross margin per unit of output produced, with the associated need to expand the amount of output produced. The second is the consequent necessity to plan for business growth. (p. 34)*

Mauldon (1973) surmised that the result of deteriorating terms of agricultural trade is a reduced gross margin per unit of production. He found that the effect of this reduction on expected net income may be more than offset by business expansion. The farmer receives less net income per unit of production so the number of units of production is increased. This strategy magnifies the consequences of variation in yields and prices

Mauldon (1973) did not consider the implications of the situation on the three main aims of farming or succession but continued '*as farming shifts from high margins and low rates of production to low margins and high rates of production, the consequences of variation increase at a growing rate'* (p. 35).

Farm businesses suffer from declining terms of trade and the business owners need to expand the financial business size to sustain or to increase their incomes. Planning and cash flow problems can arise when the funds generated are less than the funds required to finance development.

Furthermore, Mauldon (1973) wrote that:

> *In these cases, the long-term development plan may be used as the chart for endeavouring to sustain rapid growth. But the long-term development plan may itself be the undoing of some farmers, who undertake ambitious programmes only to be caught with severe shortages of funds in years where they have not planned on drought or budgeted for low prices but where they have still to pay high debt servicing bills. (p. 35)*

In summary the broadacre farming sector in Australia is characterised by many small farms that contribute a small share of the gross value of agricultural product. The high proportion of small farms is partly because of government policies over a long period. Smaller farms are effected to a greater degree by declining terms of trade than larger farms. Rising costs, including land prices, have exacerbated and contributed to declining terms of trade, productivity growth has stalled and society (and the younger generation) expects that family assets will be shared almost equally. Farmers need to expand their businesses to 'stand still' and as price to cost margins decrease the risk to profit risk increases. For the majority of broadacre farming businesses achieving the three main aims is not realistic. The combined impact of poor financial control, declining terms of trade and increasing land values has resulted in a relatively small proportion of broadacre farm business with the financial capacity to achieve the three main aims. Those impacts will be considered in the Discussion Chapter 8 of this study.

In Chapter 3 a review of relevant literature, relating to business growth in relation to survival and succession of farm businesses, is discussed. Chapter 3 refers to literature

on farm management, business growth and succession in Australia and internationally. At the conclusion of Chapter 3 the Family Farm is defined.

3 LITERATURE REVIEW

3.1 INTRODUCTION

The aim of this research is to identify important factors that have enabled family farm businesses or firms in Australia to operate continuously and successfully for three generations or more.

There is some general literature about farm succession planning in Australia such as Bridge (1991) '*Transferring the Family Farm*', McGuckian *et al.* (1995) *'Your Farm, Their Future – Together' and* GRDC's Succession Planning Guide (Wilkinson and Sykes 2007). Barclay *et al*. (2012) examined *'Australian Farmers Attitudes Towards Succession and Inheritance'* while Wilkinson (2012) studied *'New Patterns of Succession in the Australian Wool Industry'*.

No academic work in Australia addresses the issues of farm succession incorporating the perspective of farm business management, in the disciplinary tradition of farm management economics. Literature about farm management, growth and succession in the context of family farming is discussed in this section. In later chapters, literature in relation to succession in broadacre family businesses is referred to and discussed at appropriate places in the thesis.

3.2 FARM MANAGEMENT

Dillon (1965) wrote that farm management involves decision making (including both day-to-day and strategic) and technical skills which are used to implement strategies. In addition to the skills listed by Dillon contemporary farm managers are challenged by decisions about marketing, prices and whether to take a 'position' in the market.

In non-farming businesses there are often many layers of management with managers who specialise in areas including finance, production and human resources. In a farm business one family member who manages the business most often must manage issues of financial capital, physical capital and human capital within a volatile wider economy. The three forms of capital are depicted in **Figure 5: The three forms of Capital**

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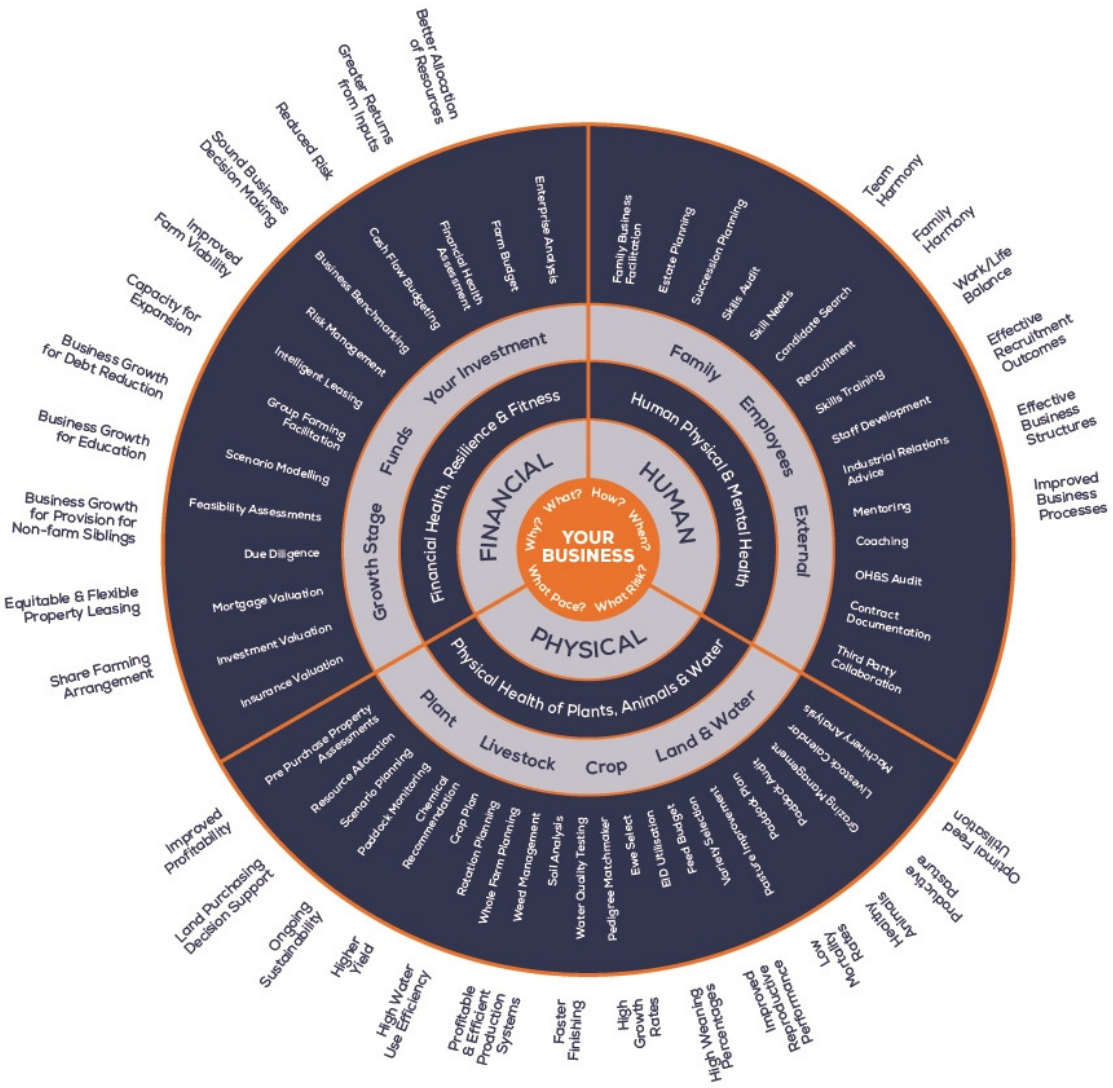

Figure 5: The three forms of Capital

Financial capital covers a subset of the family investment, borrowed funds, the capital required at various stages of the business; formation, growth, consolidation or expansion. In addition, return to equity and return to capital need to be measured. The manager also needs to construct and analyse partial budgets of changes, business cases

of development options and plan and assess the risk in any expansion and implemented plans.

In Human Capital, the sub divisions are family, employees, contractors, share farmers and professional advisors. For both families and employees' issues could include appropriate induction, team performance and accountability, right team, right size, right knowledge, right skills and attitudes.

The Physical Capital area has subsets of plant and machinery, livestock and land and water. The plant and machinery need to be fit for purpose to ensure, timely, cost effective, crop, pasture and stock operations. In the livestock sub-set the appropriate enterprise mix of, wool, meat, beef and trading are important. While for the land and water sub-set, the best allocation of land and water and the correct allocation of crop, stock species and type and appropriate paddock plans are important.

These demands on the family farm manager to be competent in all areas of management are not as demanding in other areas of business.

Significant advances in technologies in cropping industries since the mid 1980's have changed the risk profile of many farm businesses. Agronomists claim that the advent of minimal tillage makes it possible to grow crops with little rainfall. Consequently, it is claimed that one risk is reduced. The advent of new technologies and new techniques allow the area of crop one person can handle to increase significantly and this, as argued by Barry and Ellinger (2012), can increase exposure to risk.

Many texts, including Makeham and Malcolm (1993) and Hardaker *et al.* (1971), explain the principles of sound farm management economics, farm management decision making, managing risk, good farm accounting practice and so on Makeham *et al.* (1979) provided strategies on how to cope with change. None of these texts combine farm management and business growth strategies to show how farming families might achieve the three main aims to: (i) provide adequately for retirement; (ii) pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; (iii) provide sufficient resources for the non–farming children to be satisfied with their share of the family assets. However, Shadbolt

(2008) identified the importance of the proper use of a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis and of a *'balanced scorecard'* (BSC) approach to strategic planning. This approach of being thorough in the use of the SWOT analysis and examining all aspects of the people, production and finances of the business would have useful application to farm succession planning in Australia.

3.3 GROWTH

Business growth can be funded from cash flow or borrowings. As a business grows there are critical times when its performance might change from growing to consolidating, or standing still, or declining. In Figure 6, succession has three or more S's, a series of sigmoid curves joined together and intended to depict the growth, decline or stationary nature of a business as measured by the total equity or wealth.

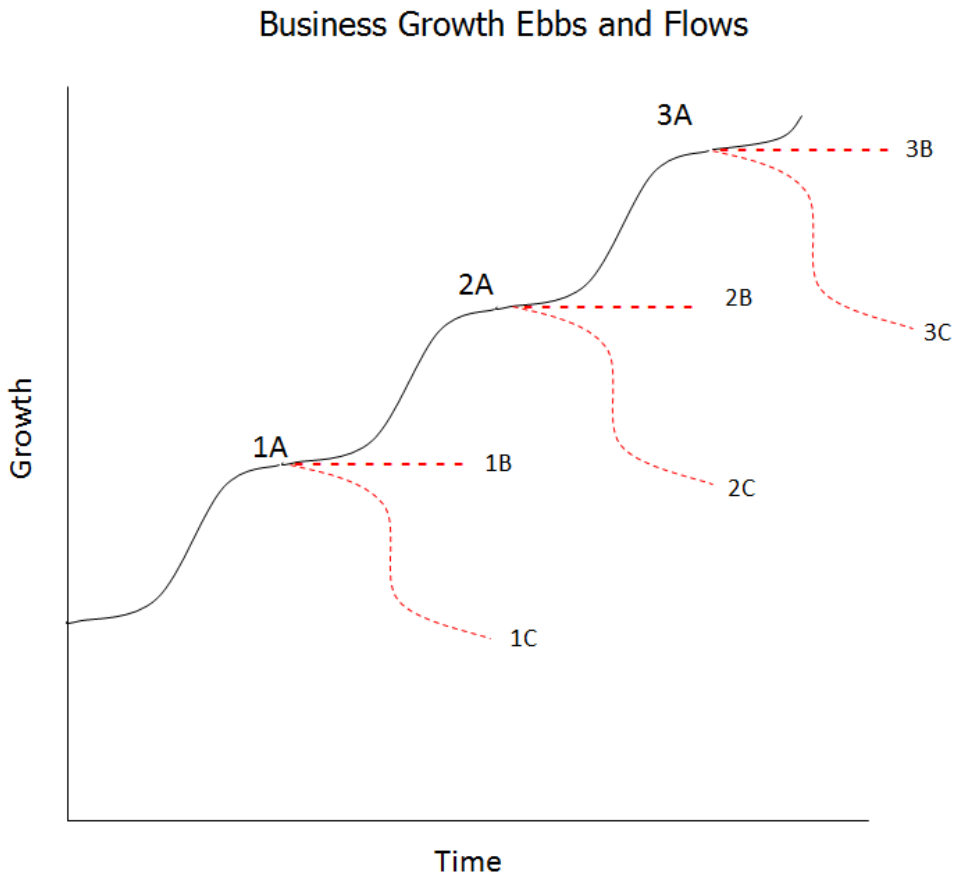

Figure 6: Business Growth Ebbs and Flows

Developed by Stephens, 2016

Points 1, 2 and 3 are turning points in the life of a business. Situation A is shown above point 1 if the business has continued to grow. Similarly, situation A is shown above points 2 and 3 on the assumption that growth has been achieved. In each case situation C indicates that the business has shrunk (sometimes described as negative growth) and situation B indicates that the business is standing still.

3.4 SUCCESSION

In this study succession refers to the orderly transfer over time of responsibility for management and delegation of authority and transfer of ownership of livestock plant and machinery and the ownership of land and other assets from one individual or group to another individual or group.

Longworth (1972) defined 'succession' as 'inter-generational transfers' and wrote:

> *There are three kinds of inter-generational transfers of interest in relation to the financial management of a farm business. They are the transfer of the ownership of future income streams, the transfer of the ownership of wealth and the transfer of the decision-making function (p. 169).*

Longworth (1972) goes on to describe various methods of transferring assets in the most effective manner, some of which are now outdated or superseded.

A further definition of the Family Farm in relation to succession is provided by Chapman and Eastway (2016) who wrote that '*succession involved the transfer of leadership, managerial control and ownership of family and farming assets from one generation to another*' (p.2). The researchers outline the issue thus:

> *During the succession process, it is often difficult for farmers to reconcile the balance between treating children 'fairly,'' providing for their future and maintaining a viable business which can lead not only to a reluctance to step into retirement, but to discuss succession at all. (p. 2).*

In attempting to achieve the three main aims the older generation needs to understand what each member of the family wants, needs, expects and aspires to achieve. This information will be difficult to collect without good relationships between family

members, which in turn require a good level of communication. Voyce *et al* (1989) identified some important issues for farm families to achieve successful succession. They include:

i. Identifying the needs and aspirations of each family member in each generation.
ii. Building and maintaining relationships between family members
iii. Transferring management and control of the farm
iv. Transferring ownership of the farm.
v. Leaving a viable farm to the children.
vi. Preparing for retirement
vii. Treating all children fairly but not necessarily equally

This Voyce *et al* (1989) study provides a useful introductory work frame, though it says little about how to achieve the objective identified in sub-point (v) above. If leaving a viable (as defined) farm to the children to inherit and providing for retirement and for off farm children were important business objectives for a family, what steps did the business take to ensure all the objectives were met? In cases where the business has not been successful in meeting these objectives what steps could have been taken?

Tually (Tually, G. 2014, unpublished paper) developed a 'Guide' to Farm Succession. The guide includes hints, dos and do nots, case studies and suggestions on business structures. The guide also assists in goal setting for the family and the business, developing budgets, monitoring and managing cash flow. It stops short of showing how to build the business to ensure that there is wealth to distribute and the three main aims are possible. Tually further described different forms and combinations of business ownership and explained a series of questionnaires to assist families choose the structure or combination of business structures which suited them. As with many other studies in this area, Tually falls short of showing how to build a business to achieve the three main aims.

The 'Many Paths: First Australian Farm Succession planning conference' funded by the Rural Industries Research and Development Corporation (RIRDC), was held on April 5th

and 6th 2006. Over 160 delegates from all over Australia and from a diverse range of professions attended. (Gardner, 2006).

The 'Many Paths' conference was a first step in raising awareness of the importance of effective farm succession planning. It was the first time in Australia professionals from all disciplines working with farming families on succession issues had met to discuss the topic of succession planning, key issues, blockages and approaches. Future research issues and 'good practice' ideas were identified.

The overall conclusions from the conference were that succession planning is a complex process, which requires a mix of human and technical skills to create effective outcomes for farm families. The conference found that many professions and individual professionals have their own approaches. No one method or methods could define a single best practice; there are 'many paths' and approaches. The conference also recommended that a multidisciplinary approach to succession planning, greatly benefits farming families and creates potential for better outcomes. Gardener (2006) wrote that *'There is however a challenge in facilitating the professionals to adopt such an approach*' (p. 2).

Even this specialist conference failed to grasp the core issue of how to build the business so that achieving the three main aims is possible. Stephens (2011) concluded '*very few farmers and their families have devoted sufficient time to working out how the farm business will be transferred'* (p. 61). In addition, Stephens (2011) wrote that:

> *The farm succession issue is not new, but the significance is increasing Traditionally farm succession was not a big issue (for the purpose of this paper, the words 'farm' and 'station', including pastoral leases, are interchangeable). If the eldest son wanted to farm, he was given the farm and younger children got what was left over. In cases where the eldest son wanted to pursue another career, a younger son was given the farm. Many farms were big enough to be cut in half and in some cases, they were mortgaged to allow the purchase of another farm. The significance of the issue is increasing because as land prices have increased, the cost-price squeeze has impacted on profitability and a series of dry seasons have combined to make farming unattractive as a career. The result is that in many cases there is no obvious successor. Farm children have been encouraged to pursue other careers (p. 61).*

In addition, Stephens wrote:

> *Where families start to address succession issues earlier in life, they can start to provide for non-farming children with off-farm investments. If parents want to provide for non-farming children a smaller share sooner may be an acceptable outcome. The principle of net present value (less money can be provided now, rather than at some future date and be of equal value) is a useful tool (p. 62).*

Foltz and Marshall (2012) investigated factors leading to a family farm business naming a successor for the business. The researchers separated the businesses into farm and non-farm businesses to compare and contrast the situations and findings, considering business factors, family factors and individual factors. In relation to business factors, the authors found that:

> *Each family business could have different goals, ranging from maximising profit to including and integrating family members into the business. The goal of the business could be determined by what the business owner was seeking to gain from the business. The act of settling business goals helped members of the family who were involved in the business have sharper vision for where the family business is headed in the future (p. 7).*

Regarding family factors, Foltz and Marshall (2012) found that:

> *Not only family dynamics but also the structure of a particular family could have an effect on the succession process. When there was a question of who would become the successor of a family business, many family business decisions automatically became more complicated and the otherwise obvious decision of who would inherit the family business became less clear (p. 9).*

Finally, in relation to individual factors, Foltz and Marshall (2012) found:

> *The generation of the owner could affect whether or not he or she had thought about naming a successor. In the case where the owner was either second or a generation higher, he or she had experience of a succession process in one way or another-either passing the business down or having the business passed down to them (p. 15).*

Businesses, which remain in the hands of one family for several generations, have a cyclical ownership structure. This is true of family farm businesses. Typically, there is a

cycle of transition. The founding generation hands the business over, either as a whole or in parts, to one or more members of generation two. Individuals in generation two may work separately or together, but it is usual that as individuals in generation three grow to adulthood generation two will share the business. These cycles mean that during their lifetime the situation of individuals will often change as they become involved in the business or in the ownership of the business. In addition, non-family members may work in or have some ownership of the business. The combinations of family non-family, working in and or having an ownership share can be confusing. Often individuals are unclear about their role. To help avoid this confusion Tagiuri and Davis (1992) described seven different roles that individuals could take in a family business.

Any individual in the business can only be represented by one number, but there may be many people represented by that number. Figure 7 depicts The Three Circles model.

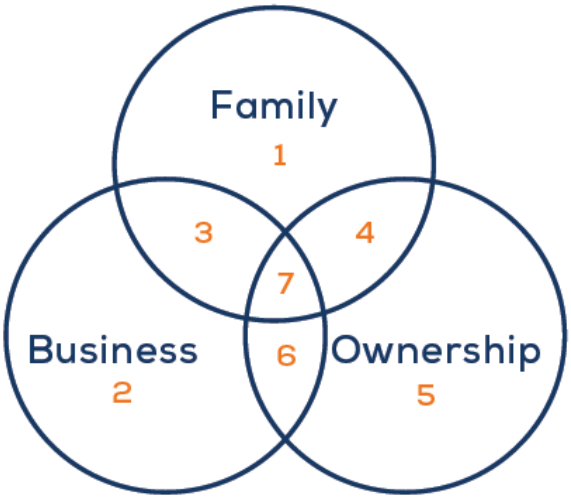

Figure 7: Three Circles Model (Adaption from Tagiuri and Davis 1992)

1. *A member of the family but not involved in the capital ownership or the business.*
2. *Involved in the business but not in the family or involved in the ownership.*
3. *A member of the family working in the business but without any ownership of capital.*
4. *A member of the family who owns capital in but does not work in the business.*
5. *Someone who owns the capital asset but is not in the family and is not involved in the business.*

6. *A person involved in the business and who owns the capital asset but is not part of the family.*
7. *A family member who is working in and with ownership of the business (Tagiura an Davis, 1992, p 43 – 62)*

In most Australian family farming businesses, the family owns the land and the business (stock and plant). The owner and manager are the same person. Penrose (1995) who refers to businesses as firms explains:

> *In small firms where the owner and manager are one, the income from the firm may no longer be sufficient to call forth the effort required to run it - the owner may want to retire from business and there may be no adequate successor in his firm or family; or he may want to acquire cash or easily marketable securities to increase the liquidity of his estate in preparation for his final retirement from the world (p. 159).*

The situation Penrose (1995) describes as 'Personal considerations and special situations,' are the norm when it comes to the structure of family farm businesses in Australia

[71] In Australia, where succession to the next generation is achieved, it is unusual for more than one member of the successor generation to remain involved in the business. It is usual for siblings to develop separate businesses before handing over the business to the subsequent generation.

3.5 INTERNATIONAL EXPERIENCE WITH FARM INTER-GENERATIONAL SURVIVAL AND SUCCESSION

Australia is not the only country where there are significant issues surrounding the future of the family farm and succession. As is the case in Australia, several texts including Bishop and Toussaint (1964), Castle and Becker (1964) and Neilson (1986) elucidate the principles of farm management economics, sound farm management decision making, risk management and good farm accounting practice. Nix (1992)

explains methods of enterprise analysis, while Stern *et al.* (2001) describe how businesses can add value using the theory of the 'Economic Value Add' (EVA). Again, as in Australia, none of these texts combines farm management and business growth strategies to point the way for families who want to achieve the three main aims. These are to:

i. provide adequately for retirement;
ii. pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children;
iii. provide sufficient resources for the non–farming children to be satisfied with their share of the family assets

Lobley *et al.* (2010) discussed some international comparisons on succession and retirement. They found that one of the prime objectives of family farming businesses is to hand on a viable farm to the next generation. They also found that the percentage of farms owned by families in the United States, at around 95% is similar to the percentage in the UK and Australia.

Emphasising that succession is a process rather than an event; Lobley *et al.* (2010) state that:

> *Succession is not a single event but is (or should be) a process that takes place over an extended period. Succession is the process of transferring the management of business assets. This may involve the transfer of the management of the 'home farm' to a successor (or multiple successors), or it may involve the transfer of the necessary capital to establish a new farm business. (p. 50-51)*

Further international perspectives about succession and retirement on family farms are presented by Lobley *et al.* (2012). The publication contains chapters from research from the United States, Australia, Japan, Switzerland, Northern Ireland and the UK. The Australia section of the study focusses on the wool industry in the late 1970's through

to the 2000's and compares characteristics of the farm population in relation to the general population in Australia, UK, United States, France and New Zealand.

An updated table of comparative measures is shown in Table 2 (below). This table was adapted from information from a report commissioned by the researcher and compiled by Brickwork India. A copy of Brickwork India Report is available from the researcher..

Table 2: Other Measures International Comparison of Population and Other Measures

Measure	**Australia**	**USA**	**UK**	**France**	**New Zealand**
Total Population (million)	23	316.1	64.1	66	4.4
Rural Population (million)	1	46.2	12.8	8.7	.52
Number of Farmers	130,000	3,200,000	290,000	198,000	.308
Agricultural contribution to GDP (%)	3	1.2	1	2	12
Average earnings of the population	$76,000	$51,017	£27,006	F35,441	$28,500
Subsidies paid (1995 – 2012) (billion)		$ 292.5			
Number of farms	130	2,109,303	290		58,068
Land in farms acres (million)		914.5			
Average size of farm (acres)		434	100	135	
Family owned farm (%)	95	97			

Source: Adapted from Brickwork India, 2014

Most countries appear to have similar challenges to Australia in relation to succession in farm businesses. Australia, Canada and UK have a higher percentage of farmers who have identified a successor than the four states in the USA. In Figure 8 it can be seen that about forty-five per cent of Australian farmers have not identified a successor.

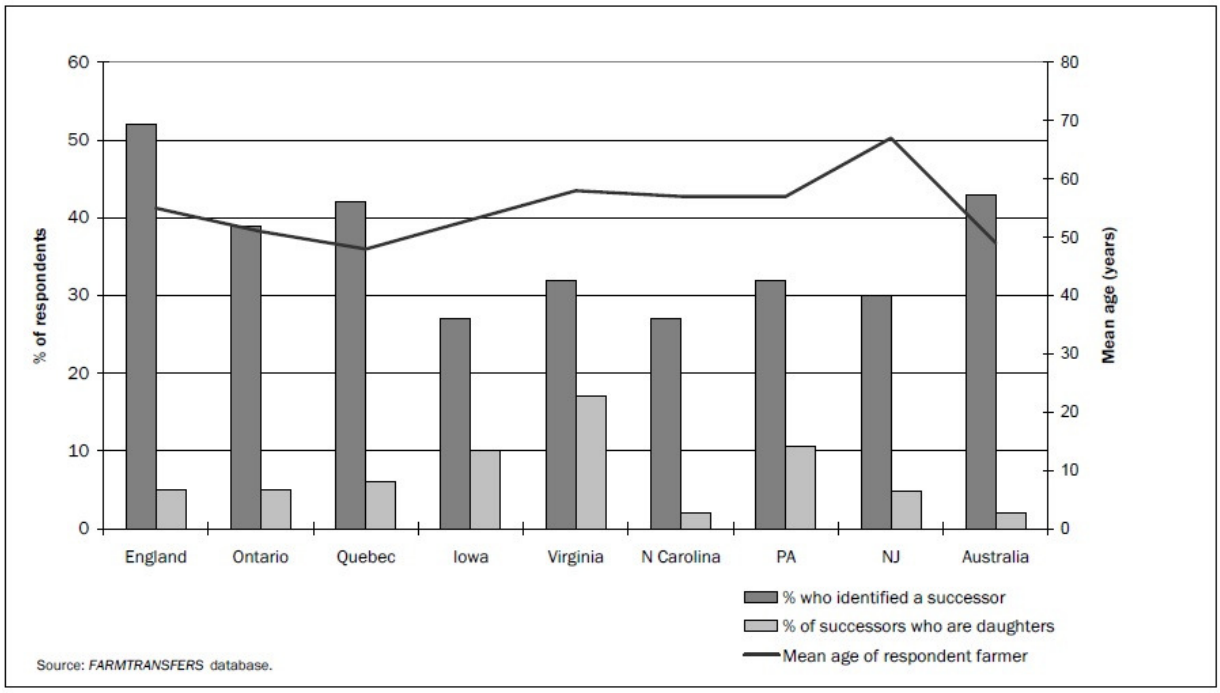

Figure 8: International Comparison on % Farmers with an Identified Successor, % Daughters, Mean Age

Source: Lobley *et al.* 2010, p. 5

The paradox of this is that whilst a large percentage of Australian farmers have not identified a successor, Australia compares well with other countries in having the highest percentage of the principal farmer being in the thirty to thirty-nine age bracket (Figure 9).

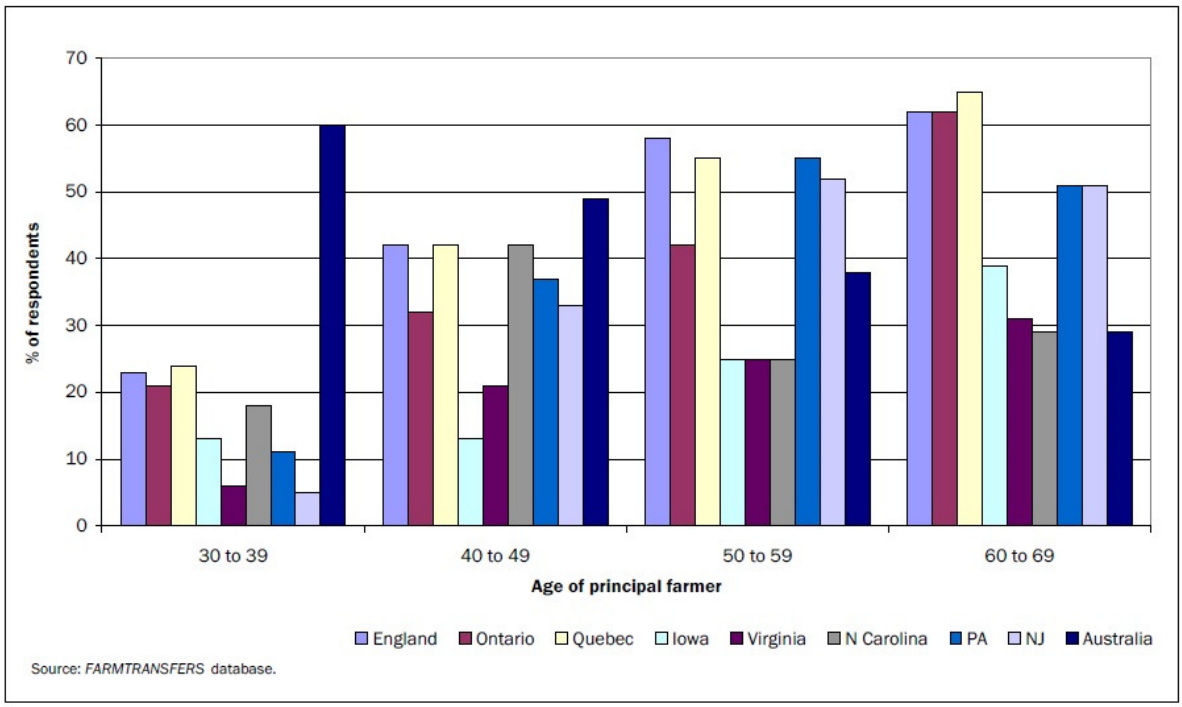

Figure 9: International Comparison of Age of Principal Farmer

Source: Lobley *et al.* 2010, p. 54

Perhaps one reason why forty-five per cent of Australian farmers have not nominated a successor is that only thirty per cent of farmers will retire from farming. The remainder will keep working or semi-retire and only finally stop farming when they are close to death (Figure 10).

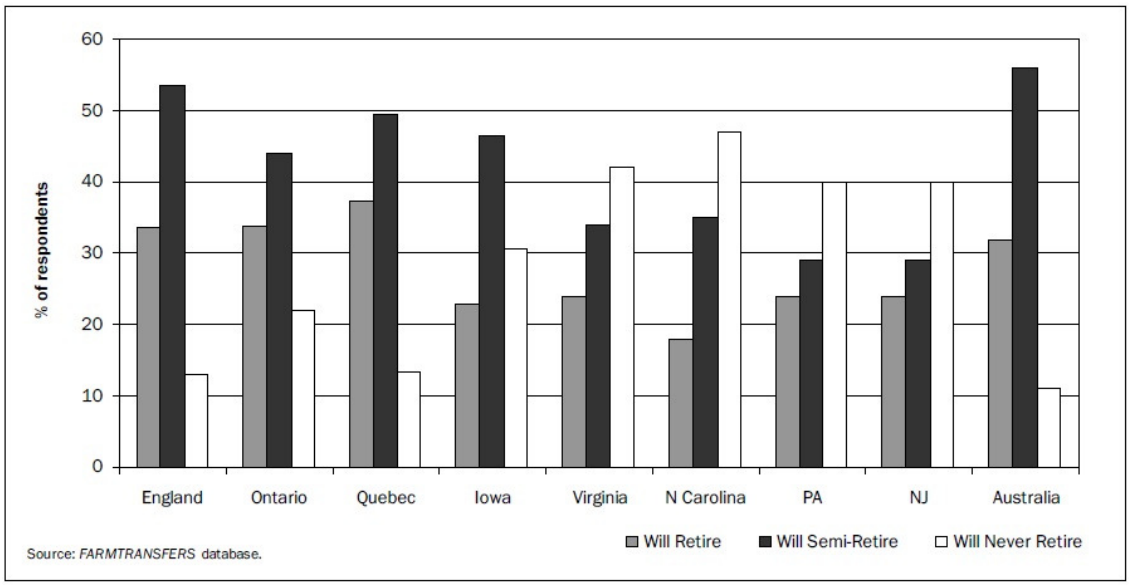

Figure 10: Retirement/Semi Retirement Intentions

Source: Lobley *et al.* 2010, p. 58

The sources of income for retired farmers in the study indicate that this pattern is similar across the countries in the study (Figure 11).

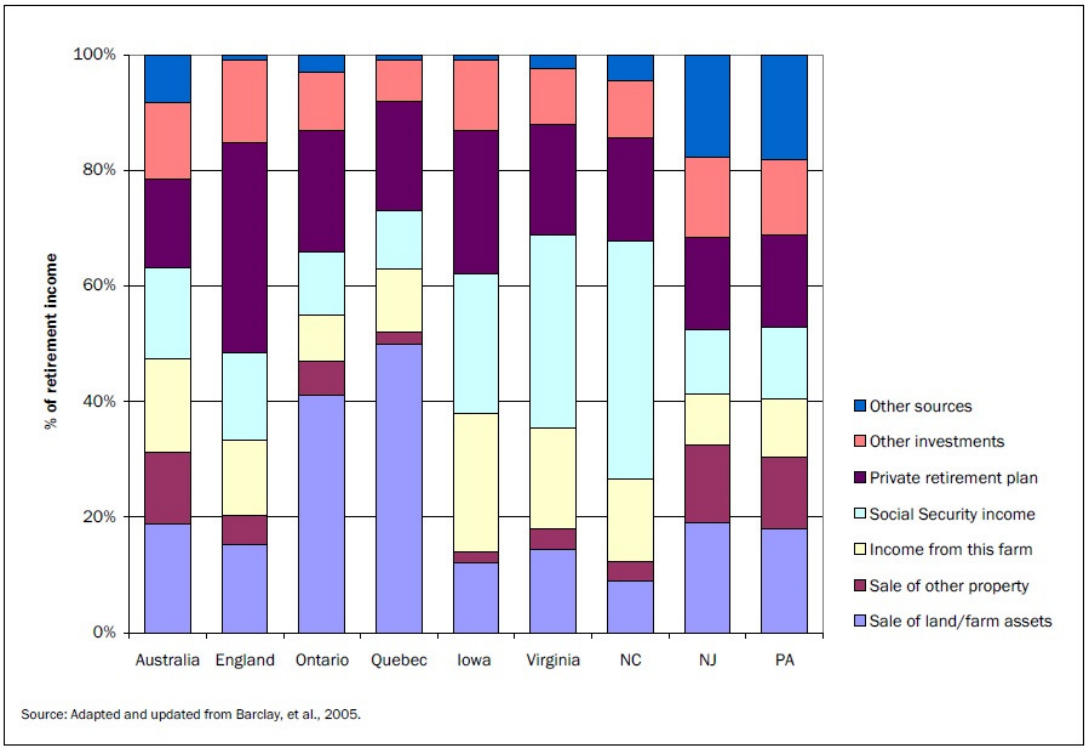

Figure 11: International Comparison of Sources of Retirement Income for Farmers

Source: Lobley *et al.* 2010, p. 59

In Table 3 the data shown suggests that Australian Farmers are more willing to discuss succession than are farmers in other countries in the study. Such preparedness to talk about the issue does not necessarily result in action being taken. Even though the majority of Australian farmers may have discussed succession, they have done little or nothing about it.

Table 3: International Comparison of Professional Discussant

(% of respondents)

Type of discussant	England	Ontario	Quebec	IA	VA	NC	PA	NJ	Australia
Family	28	63	63	46	66	25	31	31	59
Lawyer	14	7	10	17	10	0	9	9	9
Banker	7	10	7	8	1	0	3	3	10
Accountant	39	38	33	19	11	0	13	13	40
Farm consultant	0	5	11	3	2	0	2	2	8
Other farm advisor	4	7	6	0	0	7	4	4	9
Other	7	10	6	3	1	1	2	2	5
No one	44	28	28	47	30	67	21	21	9

Total sums to more than 100%, as some respondents indicated more than one category.

Source: Barclay, et al., 2005; *FARMTRANSFERS* database.

Source: Lobley *et al.* 2010, p. 59

After an extensive international literature review on innovative, sustainable and succession-orientated strategies, Suess-Reyes and Fuetsch (2016) concluded that:

> *Family farms are exposed to severe economic, political, social and ecological changes. To enable intra-family succession and to safeguard the long-term survival of the farm, farming families are therefore increasingly forced to pursue market-driven, innovative and sustainable strategies (p. 117).*

The extent to which these findings from international experience apply to Australia is a question to be considered further in the discussion section of this study. The view of Alsos *et al.,* (2011), Vik and McElwee (2011) as cited in Suess-Reyes and Fuetsch (2016) was that '*throughout developed countries, the agricultural industry has recently undergone massive changes which affect both farm businesses and the life of farming families… changes and environmental disasters further challenge the agricultural industry* (p. 117).

All the statements above are true of Australian agriculture. Suess-Reyes and Fuetsch (2016) also concluded *'new sources of earnings are generated through intensification, diversification, conversion (e.g. into organic farming) and off-farm employment'* (p. 117).

Wealth is important and the three main aims of family farmers are more difficult to achieve in situations where wealth is lacking. Lange et al (2011) found that '*wealth transfers between parents and children can be examined using intergenerational transfer models. These models can indicate both motivation for transfers as well as the allocation of transferred wealth among recipients'* (p. 1).

In his study of generation change in Polish agriculture, Dudek (2016) summarises 't*he pace of generational change in agriculture has slowed considerably in recent years. As a result, in many European countries the population of farmers is aging rapidly)* (p. 61).

In contrast, in the United States, Mishra and El-Osto (2007) found that:

> *Succession planning is a component of a household's risk management strategy for its farm business in as much as it is aimed at continuity of the business' management team. The family farm sector relies heavily on intergenerational succession. Succession and retirement are inter-linked and are reflective of the life cycles of the farm household and the farm business (p. 1).*

Calus and Van Huylenbroeck (2008) linked succession directly to the consolidation phase of the farm life cycle:

> *The preparation of the farm transfer or farm exit is a process that starts in the consolidation stage of the farm life cycle. In this stage, the decision to transfer the farm or not is taken and the farm management is adapted to this decision (p. 1).*

The researchers asserted that 'the results show that the succession effect plays a role from the age of 45. 'An early designation of the successor gives an incentive to invest and to improve the management' (Calus and Van Huylenbroeck, 2008, p.1). They claimed, '*The presence of a successor provides an incentive to expand the farm, to invest*

in capital and to increase the output over longer periods than would be the case if succession is uncertain or has been ruled out' (Calus and Van Huylenbroeck, 2008, p. 1).

> *They argue that the occurrence of a successor within the family farm might motivate the principal decision maker (PDM) to invest and raise the current farm size. This link might become stronger as the event of succession comes closer (p. 1).*

It is likely that the farmers studied in the international comparisons discussed above are no better prepared, nor better placed, to achieve the three main aims of family farmers than are farmers in Australia.

A key aspect of the planning process is a strategic plan with emphasis on a SWOT analysis (Shadbolt 2008). Kaine *et al.* (1997) found that *'planning for succession should be an integral part of the long-term business plan for the farm' (p. 9).*

3.6 DEFINING THE FAMILY FARM

Before investigating the central questions in this study, the 'family farm' needs defining. One useful discussion in defining a family farm is provided by Anderson (1972). Anderson concluded that in Australia a narrow definition of the family farm is one owned and operated by the family unit, which provides the bulk of the labour. Anderson was concerned that many family-owned and operated properties where the total inputs of hired labour exceed those of the family itself would be excluded by such a narrow definition. Farm families, in this study, who have achieved the three main aims, have all employed labour from outside the family. Anderson (1972) proposed a broader definition:

> *Perhaps a fairer definition of a family farm would be a farm which is managed by the farm family and which supports the bulk of the family's income. This is a much wider definition, encompassing not only properties requiring substantial seasonal labour, but also such people as contract growers of vegetables and poultry. In the latter case, the processing firm issuing the contract may insist upon participating in management decision, but the family usually owns its land*

> *and equipment and makes the prime decision on whether or not to enter into the contract. (p. 181-182)*

Anderson's definition is wider than Lobley *et al.* (2010) who wrote:

> *A survey of 255 farms in six areas of England found that 84 per cent operated 'established family farms' (that is, farms run by operators who are at least the second generation of their family to be farming the same farm or a neighbouring farm). (p. 50)*

The United States Department of Agriculture (2017) puts the current definition of a family in the reverse by defining the non-family farms as '*any farm where the principal operator and persons related to the principal operator do not own a majority of the business (24,992 farms; 1.2% of U.S. farms'* (p. 3).

A further definition from The Year of the Family Farming [2014] website claims that:

> *Family farming includes all family-based agricultural activities and it is linked to several areas of rural development. Family farming is a means of organizing agricultural, forestry, fisheries, pastoral and aquaculture production which is managed and operated by a family and predominantly reliant on family labour, including both women's and men's* (Food and Agriculture Organization of the United Nations 2014).

In Australia, Martin of The ABARES elaborated on the difficulty of defining the family farm in the following terms:

> *The family farm is not easy to determine. We have a fairly detailed collection of the ownership shares and distribution of profits that we use to determine this classification and for a range of other purposes. This is the one you often see quoted as 'more than' 95 per cent of broadacre farms are family operated the 'more than' arises because there are farms with complex ownership arrangements difficult to unravel with the available data that are excluded as they cannot be clearly determined to be family owned.*
>
> *Another that we have used for over 50 years is, 'A family farm is one that uses more than one full time equivalent of family labour (48 weeks of family labour)'. The aim here is to eliminate very small part-time farms where the operators are mainly reliant on off-farm activities and eliminate farms that are entirely*

> *operated by hired labour and salaried managers. (Martin, P, the ABARES, pers. comm. - Appendix 2).*

Considering that this study is identifying how the three main aims have been achieved or why they were not achieved definitions of family farm which concentrate on the degree to which hired labour is used are not relevant. The definition of the family farm used in this study (page 10) is:

An Australian primary production business that is primarily owned by members of one family who own and manage a farm or farms.

Worldwide the family farm is regarded as one of the most enduring forms of business and one of the most successful forms of farming. The family farm can respond more rapidly to varying situations than a business with a long chain of command. Malcolm *et al.* (1996) writing about the '*The Future of the Family Farm'* wrote:

> *The family farm has survived because it is an efficient business organisation. Over the more than 100 years of family farming in Australia, the family business has remained the dominant form of business organisation, though the scale of the businesses has increased markedly. (p. 436)*

Malcom *et al* (1996) observed that in the main farm business management involves a small number of people who manage and work on the farm and who are prepared *to bear the sacrifices necessary to weather the periodic low incomes and expansion phases.* Commonly, these arrangements have been based on close family ties.

> *Why might this form of organisation continue to be more efficient than other forms of business organisations, such as private company using a lot of employed labour? The reasons are found in the biological nature of farming as production activity, in the nature of the risks involved and in the nature of the sources of capital for investment in agriculture. (p. 436)*

In the late 1990's the United States farm economist G.L Johnson (1969) proposed the advantages of family ownership of farm businesses The chief advantage is the ability to overcome mistakes.

The chief advantage of the family form of organisation over other farms is its ability to survive mistakes. Those mistakes occur because of rapid changes in technology, large differences between purchase and sale costs of non-taxed assets and the effects of supply and demand on both costs and prices. Because of these factors, Johnston argued that farmers must

> *(1) inevitably make mistakes of under and over investment (and production); (2) be unable to correct all such mistakes because of asset fixity and (3) be able to minimise losses on some mistakes only by further investments in other durables and expenditures which further increase production. By definition, a mistake is the production of quantities such, that, at the price received, the resources used in production do not all earn a return above their cost. The argument then is that family farmers have consistently, for certain periods, produced output at very low prices. A consequence is that larger family-sized farms, in some situations, have not been able to develop where they have had to compete in the open market with family farms for both labour and capital. This is, family farms operate at times at very low wages and return on capital. Farms that are so large that they have had to rely considerably on non-family wages and non-family capital cannot consistently attract the labour and capital they require, because periodically the wages and returns on capital in farming are below that available in alternative activities in the non-farm sector. Johnson concluded: 'A cynic might even assert that the family farm is an institution which functions to entice farm families to supply batches of labour and capital at sub-standard rates of return, in order to supply the general economy with agricultural products at bargain prices.* (Malcolm, *et al*, 1996, p. 438-439)

In summary, whilst there are some disadvantages in the family farm structure, particularly if family members are contributing underpaid family labour, there are advantages including the ability to contribute underpaid family labour. In Australia where families own ninety-five per cent of farms, strategies are needed to reward family members adequately. In many cases this reward will be ownership of the farm or at least part of it. Such strategies require the three main aims to be clearly understood and a determination to achieve them.

In Chapter 4 theories relating to growth and scale and the governance of family and corporate businesses are discussed. A discussion relating to farm business financial management and the effect of capital gains tax concludes the chapter.

4 ELEMENTS OF BUSINESS THEORY

4.1 INTRODUCTION

In this section issues including, business theory, growth and scale, differences in the management and governance of corporate and family owned firms, farm related business management issues and capital gains tax, are discussed.

There are three academic dissertations on which the question will be tested in the discussion section of this study. The three are; Penrose (1995) '*The theory of the Growth of the Firm',* Collins (2001) '*Good To Great'* and Barry and Ellinger (2012) '*Financial Management In Agriculture'*. In addition, in relation to the growth and management of firms, reference will be made to McKay (1997), Chaponniere and Ward (2003) and Bosch (1995). Reference will be made to other work in the Chapter 8.

Penrose (1995) developed the '*Theory of the Growth of the Firm* [8]'. This is not one theory with a simple series of steps. The theory includes the nature of firms; the economics of size and growth; why and how they grow; how they are managed, diversify, expand and find and use capital; how they merge, acquire other firms and many other factors relating to the growth of firms.

4.2 GROWTH AND SCALE

Business growth was Explaining growth Penrose (1995) found that:

> *Many firms do not grow and for a variety of reasons: unenterprising direction, inefficient management, insufficient capital-raising ability, lack of adaptability*

[8] A business organisation or partnership.

> *to changing circumstances, poor judgement leading to frequent and costly mistakes, or simply bad luck due to circumstances beyond their control. I am not concerned with such firms, for I am only concerned with the process of growth. (p. 7)*

While Penrose may have only been concerned with the theory of growth this study is also concerned with what happened within a family, or in the industry with seasonal conditions within Australia, that acted to inhibit growth in the individual farming businesses considered in the study. Barry and Ellinger (2012) defined growth and wrote:

> *Several types of size and growth means are possible. The measures maybe financial or physical low the researcher is does not have access to the profitability of all of the businesses and growth in terms of these in these studies in terms of land area and turnover most of the case studies have sufficient information about Barry and Ellen Show point to the economic environment for growth. (p. 105)*

Commenting on the economic environment for growth Barry and Ellinger said *'conditions for growth exist when the firm has underutilised resources less-than-optimal resource allocation and all savings from disposable income to be invested'* (p. 106).

The authors describe a *push incentive*, where the three main aims are achieved. In which the manager seeks growth as a means of fully exercising management ability… and the *pull incentive*, in which the business must grow in order to operate more effectively *(p. 106).*

The United States of America, where Barry and Ellinger (2012) work and study, has relevance to this study because it has important aspects of farming which are common to Australia:

> *Over the last century the number of farms has declined substantially and many people have left agriculture. The remaining farms experienced substantial mechanization modernisation and growth in the size as farms responded to the cost efficiencies associated with new machine technologies and the quest for greater income generating capacity these factors have traditionally destabilised*

> *farm income and place downward pressure on profit margins per unit and found production.*
>
> *Agriculture is also a cyclical industry that experiences periodic upturns and downturns around the longer-term growth trend. (p. 106)*

Barry and Ellinger (2012) also discuss economies and dis-economies of scale. These concepts are particularly relevant to achieving the three main aims of farming. The authors' comment:

> *These losses called dis economies of scope and scale [which] could outweigh the value of any risk reduction from diversification… economies (diseconomies) of scale refer to possible reductions (increases) in costs per unit of production as the scale of operation increases with the mix of enterprises held constant. Economies (dis-economies) of scope refer to reductions (increases) in costs per unit of production as the number of enterprises increases with the scale of operation held constant… the gains from reduced risk must be compared, however with possible reductions in expected returns from geographic dispersion. (p. 132)*

Penrose (1995) also describes methods of expansion:

> *Finally, we must consider briefly the significance of acquisition and merger. We have already shown that the possibility of acquiring other firms raises enormously the maximum rate of expansion, primarily because it substantially reduces the managerial services required per unit of expansion. (p. 210)*

4.3 GOVERNANCE: FAMILY AND CORPORATE

Family businesses, including family farms, are different from many corporate farms because of factors that combine to change the attitudes of owners to being in business. For business continuity, both family and corporate businesses have to be able to change management, change ownership and allow for retirement.

The complex nature of managing a farm business will be considered in the discussion section of this study. Penrose (1995) described it thus:

> *When a firm is relatively small the division of managerial labour will not be extensive (indeed it cannot be) and the most important decisions are sometimes made by only one man. As the firm grows it reaches a point where a change in its managerial structure must take place because of the necessity, if growth is to continue, of subdividing the managerial task and especially the decentralisation of managing management 'decision making.' (p. 161)*

In Australian agriculture these phenomena described by Penrose is seen when farmers describe the farm as their superannuation. While the farmer wants to go on farming the farm is not seen as a saleable asset but when retirement is imminent the 'unsalable' becomes a saleable asset.

Chaponniere and Ward (2003) highlight significant differences between a shareholder firm and a family business:

> *Families have a culture centred on values, firms worry about strategic fit. While families think about adaptation firms think about constant growth. Families think in terms of incremental improvement, but firms think about innovation. The most important stakeholders in a family business are family, customers and employees but in a firm, they are shareholders and management. The family business is seen as one in which the capital asset cannot be realised, but the firm sees the business as a disposable asset. In a family business leadership is seen as stewardship but in a firm, it is charisma. (p. 55)*

Ward (Ward, J. 2012, pers comm[9]) points to essential differences in the attitude of the management team of a family firm to that of shareholder cooperation. Ward argued that while owners and managers of family businesses think about continuity, the people who own and manage corporate farms think about near term share price. While the family goal is to preserve assets, the corporate business seeks to meet investor expectations. Families want to protect downside risk while non-family say, 'the greater the risk the greater the return'.

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[9] Ward, J. Professor Emeritus of Family Enterprises, Kellogg School of Management North-western University

Allen and Lueck (2004) (cited in Plunkett *et al*. 2018) explain further differences between family and corporate farms:

> *Use a transaction costs framework to examine the incentive effects of seasonality and timeliness costs on farm ownership and farm organisation, as these affect the gains from specialisation and the costs of contracting. Seasonality is modelled as the number of cycles, stages, tasks and length of tasks in a production system and the system's propensity to be impacted by the weather. (p. 135)*

Plunkett *et al*. (2018) have summarised their insights schematically as shown in Figure 12.

Family Farm: best suited to	**Corporate Farm: best suited to**
Single cycle of production	Many cycles of production
Few stages of production	Many stages of production
Few tasks	Many tasks
Short task lengths	Long task lengths
E.g., rain fed grain production: weather dependent, single cycle, few stages of production, few tasks of short duration. A great need for 'on the spot decisions', less gain from specialisation (all round farmer), less capital intense.	E.g. broiler production: climate-controlled sheds with technologies that increase the number of cycles, tasks and length of tasks. Need for 'on the spot decisions' lessened, increased gains from specialisation, increased capital intensity. Some contracting out of growing to semi-residual claimants.

Figure 12: Family and Corporate Farm Differences

Source: Allen and Lueck (2004) (cited in Plunkett *et al*. 2018, p. 136)

More insights into the governance and management of firms are found in Bosch (1995) who tracks the changes in director attitude and responsibility from the formation of '*The Hudson's Bay Company'* which [he claims] *is the oldest joint stock company trading in the English-speaking world' (p. 1*). Bosch explains how the role, allegiance and responsibilities of a director changed over time. Starting with the Hudson's Bay Company, the directors were traders and shareholders and the interests of each of the roles they played were well aligned.

This situation contrasts sharply with the misalignment of the interests of promoters, shareholders and investors, such as happened in the Managed Investment Schemes of Australia's recent past policy and may be seen, in future when the return on investment of current corporate and sovereign investments in Australian agriculture is analysed. According to Bosch the allegiance of directors' shifts as companies have more shareholders who are not involved in the day-to-day operations of the company. Directors need to represent shareholders without necessarily being shareholders. Bosch and Penrose (1995) share a similar view that when CEO's started appointing and being appointed as directors, the interests of the shareholders became secondary. A similar phenomenon occurs where a family member works for the direct benefit of self at a cost to other family members.

MacKay (1997) brings into focus the difficulty that people in family business have in handing the business on to succeeding generations. Aronoff and Ward (2011) make the case that managing a family business beyond the second generation is difficult.

McFarlane (2002) studied twenty-one Australian companies that had survived and grown for one hundred years or more. The study included two farming businesses. In this study, McFarlane identified major contributing factors to the longevity and success of the businesses, noting:

> *The Economist has quoted a report by recruitment consultants Korn Ferry which claims: Business in much of the developed world still pays too much attention to the search for charismatic leadership, rather than engaging in the more difficult but less chancy task of permitting and developing leadership through its organisation. Boards have to be persuaded to support the gradual (and often expensive) process of developing executives. The reward comes when they have to choose a new CEO. By then they will have a pool of talent to choose from and their final choice can be determined largely by the circumstances at the time. (p. 33-34)*

McFarlane (2002) continued:

> *The case against the reliance on charisma has been strengthened by the findings of research team headed by James Collins. The aim of Collins's project was to answer one question: Can a good company become a great company and if so*

> *how? After looking at 1,435 companies that have appeared on the Fortune 500 list from 1965 to 1995 Collins reportedly found just 11 that had jumped all our hurdles and moved from good to great and sustained it*
>
> *The [Collins] research team identified a group of companies that had failed to make the sustained shift and then studied the contrast between two groups to discover the common variables that distinguish those who had made and sustained a shift from those who could have but didn't. The crucial difference between these two groups was the nature of the quality of leadership, in explaining this Collins distinguished 5 levels of leadership:*
>
> *Level 1: Highly capable individual*
>
> *Level 2: Contributing team leader*
>
> *Level 3: Confident manager*
>
> *Level 4: Stimulates group to high performance standards*
>
> *Level 5: Builds enduring greatness through a paradoxical combination of personal humility and professional will. (Collins 2001, cited in McFarlane, 2002, p. 34-35)*

Collins (2001) determined that, although level 5 leadership was not the sole element for the transformation of a good company into a great one, it is essential in order to achieve the conversion. He acknowledges that:

> *Our discovery of Level 5 leaders is counterintuitive. Indeed, it is counter cultural. People generally assume that transforming companies from good to great requires larger-than-life leaders... we were struck by the way they talk about themselves - or rather, didn't talk about themselves. They'd go on and on about the company and the contributions of other executive, but they would instinctively deflect discussion from their own role.* (p 20)

The relevance of the Collins (2001) study to this project is that Collins and his team set out, *inter alia*, to answer questions relating to charismatic leaders and developing leaders. The questionnaires and case studies in this study have included questions related to the Collins research.

4.4 FARM RELATED BUSINESS AND FINANCIAL MANAGEMENT

A sense of history and a corporate memory seems to go with farm businesses which are successful in achieving the three main aims[10]. Penrose (1995) found that *'one of the primary assumptions of the growth of firms is that 'history matters'; growth is essentially an evolutionary process and based on cumulative growth of collective knowledge'* (p. xiii).

Barry and Ellinger (2012) pose questions related to designing and developing the firm's mission. These questions which are equally applicable to all the case study subjects in this study include: '*What business or businesses are we in, why are we in that business, in what market or markets do we operate the business, what social and ethical responsibilities do we have, where are we headed*?' (p. 3).

Barry and Ellinger (2012) explain the roles of leverage and risk as inhibiting factors, asserting that:

> *The effects of the farms business risks are magnified considerably by the increase in financial risk when leverage increases. These effects are important because as leverage increases unfavourable events have greater impacts on The Firm then do favourable events these greater variations arise from the fixed contractual obligations associated with interest payments and the liabilities these obligations remain fixed even though the firm's returns on assets May fluctuate considerably.* (p. 109)

A phenomenon often seen in Australian farm businesses is that 'losses accumulate while profits dissipate'. The commercial banks, as their shareholders demand, are more concerned with their own profit than that of the borrower. Accordingly, they develop policies, including credit assessment policies, designed to ensure that the higher the

---

[10]The three main aims of family farming are to:

- provide adequately for retirement;
- pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
- provide sufficient resources for the non–farming children to be satisfied with their share of the family assets

bank risk the higher the bank reward. In other words, the higher the risk the higher the interest rate.

Barry and Ellinger (2012) observed the same attitude on the part of lenders noted that:

> *Financing institutions of the farm credit system have adopted risk classes in pricing loans so that borrowers with the highest credit risks pay higher interest rates. Commercial banks and other lenders also tailor interest rates to the risk and other characteristics of farm borrowers. Thus, both external credit limits and risk-adjusted interest rates may limit a firm's rate of growth.* (p. 113)

In a similar way to Penrose (1995), Barry and Ellinger (2012) when considering resource productivity and growth, asked:

> *How does firm growth affect the rate of return on business assets it is expected to increase remain constant or decrease? The matter is not so simple. Some factors generate economics of size and other factors generate dis-economy is as firm size increases. At the same time changes in technology can alter the productivity of resources and perhaps increase the earning potential of new investments that are fully utilised… nonetheless, diminishing returns generally are expected to occur at some period. (p. 114)*

The authors discussed market demand, pointing out that demand and price is beyond the control of most producers. In discussing general risk management, Barry and Ellinger (2012) first define risk:

> *In common usage we tend to focus on risk as the set of undesirable outcomes and do not call better than expected outcomes equally risky even if they differ from the average by the same magnitude for example we might describe yield risk as the degree to which actual deals might fall below the expected level while not describing better-than-average deals as being risky. (p. 119)*

They continue:

> *The first phase in risk management is designing strategies to cope with risks... and the second phase in risk management is the implementation of risk responses and their specific uses when adversity occurs the third phase restores the firm's capacity to implement the risk strategies when stressful conditions have passed.* (p. 119)

Discussing the fundamentals of diversification Barry and Ellinger (2012) argued:

> *More specifically each farm is expected to earn a 20% return on assets with a standard deviation of 10% These data indicate that returns from either in either investment should average 20% per year and should fall between 10 and 30 about 2/3 of the time and between 0 and 40 about 95% of the time. Moreover, the chance of returns falling below zero (two standard deviations below the mean) are about 2.5%. (p. 120)*

4.5 THE EFFECT OF CAPITAL GAINS TAX

The effect of taxes, in the form of a Capital Gains Tax as applies currently in Australia or in the form of death duties, which have been, payable historically, will be considered in the discussion section of this study. On this issue, Penrose (1995) wrote *'if capital gains are taxed at a lower rate than income, the relative worth of cash (or securities) received through a sale now and the profits to be received in the future is accordingly effected'* (p. 159-160).

Capital Gains Tax (CGT) was introduced in Australia on 20 September 1985. The CGT applies only to assets acquired on or after that date. Assets owned on that date, called pre-CGT assets are not subject to the CGT. Capital gains or losses on assets acquired after that date are subject to CGT.

There are significant CGT Small Business Concessions that currently apply to businesses, other than companies. In general, these concessions are available if either the net assets of the business are under $6,000,000 or the turnover is less than $2,000,000. The figures in Table 1 indicate that over 98 per cent of broadacre farm businesses will be able to take advantage of CGT concessions as they stand currently. There are however two caveats. First, a business that is edging towards the limits of the concessions and is intending to change ownership would find it prudent to do so before the business is too big to qualify for the concessions. Second, there is no guarantee that the current concessions will remain.

Growth of the farm business (or other family owned businesses or investments) seems essential if the farming family is going to achieve the three main aims. Often that expansion requires sophisticated management more than the smaller business required. Penrose (1995) describes this challenge *'the more complex the character of an expansion in relation to its size, with some exceptions, the larger the expansion, the more managerial services we should expect to be required per dollar of expansion' (p. 207).*

The businesses, which will be discussed in the results section, are classified as either achieving the three main aims of farming or not achieving these aims. All of the businesses that have achieved and are achieving the three main aims have been and are expanding and the Penrose theory applies to those businesses.. In many broadacre family farm businesses the business owners have no desire or intention to achieve the three main aims and many of the normally accepted reasons for being in business do not apply to these businesses. In many cases the owners of farm businesses are content to go on doing what they are doing although changes may result in less work, more profitable and have better environmental outcomes.

In Chapter 5 the method of investigating farm succession is set out.

5 THE RESEARCH QUESTION AND METHOD

5.1 INTRODUCTION

To explore how to test the initial proposition that there were serious deficiencies in the knowledge, specifically in relation to building farm businesses in order to enable succession, informal initial discussions were held with a wide range of interested professionals. The professionals included academics, bankers and succession practitioners (farm management consultants, lawyers, accountants, rural financial counsellors and 'succession experts'). Following those discussions, a pilot questionnaire was developed of the state of broadacre farm businesses in Australia. Questions included: how many, how big, are they likely to be viable and is the achievement of the three main aims a possibility or a reality? Those questions were necessary to answer the research question of this study;

> What abilities, attitudes, actions and strategies enable farm businesses and farm families to (i) achieve the aims of providing adequately for retirement of the current farming generation; (ii) hand on a farm business that is an economically efficient and financially sound operation with sound prospects for increasing productivity and build further wealth; and (iii) provide fairly for all relevant family members.

The next step was to study the literature prior to surveying farmers and farm advisors about succession. From those surveys a number of case study businesses were selected and studied to provide answers to the research question.

There is considerable literature about how businesses prosper and survive over time, how firms grow and the theory of farm management, leadership in business, succession and family communication within the business. Elements of this literature relate to and

have a bearing on the questions to be asked and the answers that will be found about the research question.

The ABARES (cited in NRAC 2013) estimated that families own ninety-five per cent of broadacre farms. This figure has reduced since 2007/08 when The ABARES (cited in Australian Government, 2015) reported that the figure was ninety-nine per cent. However, the great majority of equity in farm businesses in Australia is still family equity. This has long been a defining phenomenon in Australian farming. It is apparent that in future, as in the past, many current farming families will have difficulty in balancing the competitive aims of developing the farm business and building equity with the competing aims of funding retirement and handing over a profitable and financially viable farm to the next generation and doing so while dealing equitably with non-farming children. In this study the main three aims are

- provide adequately for retirement;
- pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
- provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

Data have been drawn from surveys of farm families and their consultants and on case studies, designed specifically to answer the question: How has the farm business been able to continue for several generations and how will it survive into the next generation or not? The surveys and case studies provide data over a long period. In many cases, retaining ownership into the next generation involves reassessment of family and business expectations. In this study the attributes of successful farm businesses that have survived and will survive as the family business and those that have not and will not do so, are documented, analysed and explained.

5.2 FLOW CHART

In Figure 13 a flow chart depicts the steps in investigating farm succession. This chart has been developed by the researcher for this study.

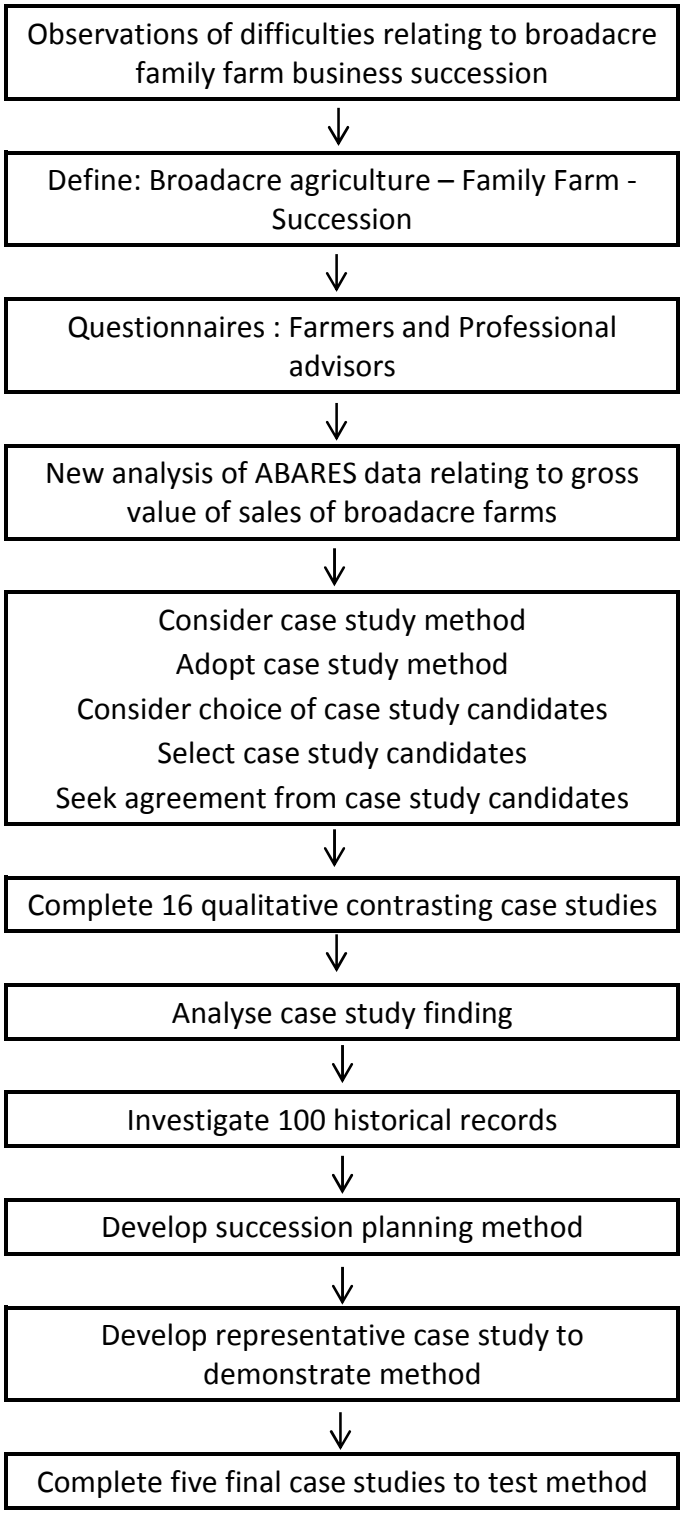


Figure 13: Broadacre Family Farming Business Succession Study Flow Chart

5.3 THE QUESTIONNAIRES

Prior to conducting the Professional and Farmer Questionnaires, each questionnaire was drafted and tested with a sub-sample of the larger group. Modifications were made to improve clarity and to reduce the time required to complete the questionaries. The modified questionaries were re-tested. The groups of people surveyed were The Professionals, The Farmers and later, Webinar participants. In addition to the specific questions participants were encouraged to make general comments. The answers to the specific questions and the comments combined to provide insights which were valuable background for the case study interviews.

5.3.1 PROFESSIONAL QUESTIONNAIRE

This was a questionnaire for Farm Service Providers. The aim was to assess the likelihood of clients of the respondents achieving 'The Three Main Aims'. The questionnaire was sent to thirty-two professionals known to the researcher. The group included farm management consultants, rural bankers, academics, accountants, lawyers and rural financial counsellors. Professional survey respondents were identified in two ways. First, through personal contact by the researcher and, secondly, each respondent who agreed to participate was asked to nominate further respondents. The modified survey was loaded onto 'Survey Monkey'. An email link to Survey Monkey was sent to each of the identified respondents, some of whom sent it on to others.

5.3.2 FARMER QUESTIONNAIRE

The Farmer survey questionnaire was sent to forty-five farmers known to the researcher. In addition, a 'Post Webinar' survey was sent to all the major case study participants and to all those who had registered to participate in a webinar series presented by the researcher.

The questions were aimed to establish that the respondents understood the questionnaire was part of a PhD study, to gain approval from them about the use of the data and to establish in what location, over what period and in which industries they worked. There were respondents from forty locations that covered all states, all agricultural production zones and all broad-acre industries.

5.3.3 WEBINAR

Following the completion of the Case Studies, a series of webinars was conducted. Participants were invited to complete a questionnaire following the webinars.

5.3.4 CONSIDERING EVIDENCE

In this study evidence has been collected from many sources. Yin (2019) described the convergence and non-convergence of evidence as shown in Figure 14. The coming together or convergence of evidence in this research began with an observation of the current situation. It was apparent that few farm businesses have achieved the three main aims and few in which those aims will be achieved in future. This observation led to the question, why? Why is it that so few farm businesses achieve the three main aims? This question helped frame the questions for the development of questionnaire and open-ended interviews. The surveys and open-ended interviews led to structured interviews and the development of the case studies. Documents from the literature review and historical records contributed to the findings. The Succession Analysis and Planning case studies and continued work as a practitioner in the area of family farm business succession contributed to the convergence of evidence.

Separate sub-studies, which may have led to the divergence or non-convergence of evidence, were not conducted.

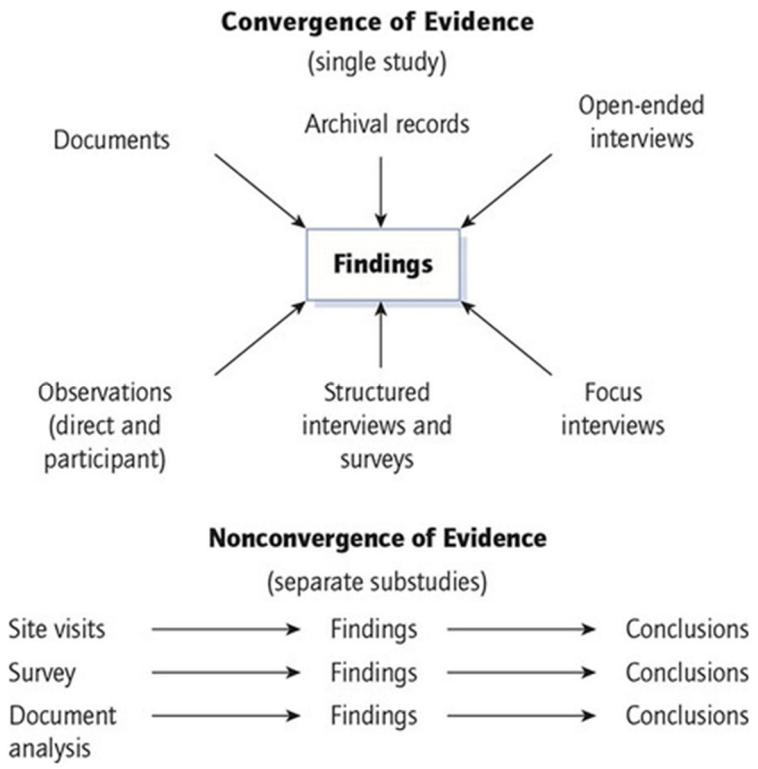


Figure 14: Convergence and Non-Convergence of Evidence

Source: Yin, 2019, p. 207

5.3.5 POSING THE RESEARCH QUESTION

In developing the research proposition and question, care was taken to ensure that it was 'open' sufficiently to ensure that the research was appropriately broad. The research proposition is:

> *Farming in Australia is too resource-constrained and challenging for most family farms in Australia to survive for three or more generations.*

The research question is**:**

What abilities, attitudes, actions and strategies enable farm businesses and farm families to (i) achieve the aims of providing adequately for retirement of the current farming generation; (ii) hand on a farm business that is an economically efficient and financially sound operation with sound prospects for increasing productivity and building further wealth; and (iii) provide fairly for all relevant family members.

In the discussion section of the study, the findings that answer the research question, may lead to a discussion relating to the implications for the role of government and public policy.

5.3.6 CONSIDERING THE CASE STUDY METHOD

To understand why and how some farm businesses stay in the hands of one family for successive generations, while others do not, it was necessary to ask farm business owner and managers from businesses that have survived and from those that have not, why they thought they were in the position they were in. In depth studies, which contrasted important aspects of continuing and non-continuing businesses, were important. While surveys provide information of a particular type, case studies are needed to ensure the depth of understanding required.

In choosing between case studies and other techniques Yin (1989) suggests that a choice between case studies and other empirical methods might be made rationally against three conditions:

a. *the type of research question being posed;*
b. *the extent of control a researcher has over actual behavioural events; and*
c. *the degree of focus on contemporary as opposed to historical events (p. 6).*

In this study, the researcher explored insights into a wide range of factors both external to and within the study businesses. The research question being posed was consistent. The researcher had no control on the behavioural events. The historical events were seen as important because the sum of those events had determined whether the farm has and will continue as a successful business, or not. Case studies are appropriate because, as Yin (1981) defined a case study is an empirical inquiry that:

a. *investigates a contemporary phenomenon within its real-life context; when*

b. *the boundaries between the phenomenon and context are not clearly evident; and in which*

c. *multiple sources of evidence are used' (p. 5).*

Moreover, the case study approach is valid because it enables an examination of the decisions and actions of real people in real businesses over a long period. The farm business management decisions which have been made by successive generations have allowed the current generation to own the business. Case studies, as argued by Crosthwaite *et al.* (1997) are useful because through case studies consideration can be given to:

> *The mix of disciplinary knowledge appropriate to answer questions depends on the nature of the problem at hand. Research resource constraint means that there are trade-offs between the number of relevant cases which can be included in an analysis and the disciplinary breadth and depth brought to bear on each case (p. 1).*

The addition of the historical records and Succession Analysis and Planning case studies allowed a degree of analysis which would not have been possible from the major case studies alone. The key to establishing a research design is to follow a logical process of linking data to objectives, conclusions to data and, thereby linking objectives to conclusions (Crosthwaite *et al.* 1997). Yin (1989) identified six critical steps (elements) of a case study research design as follows:

a. *Presenting a clear and adequate specification of the theoretical issues and, from this, the questions that framed the study.*

b. *Clearly defining the unit(s) of analysis, including possible sub-units if these are warranted.*

c. *Deciding on the appropriate number of cases to explore within the study.*

d. *Clearly specifying the selection criteria for choosing the case studies.*

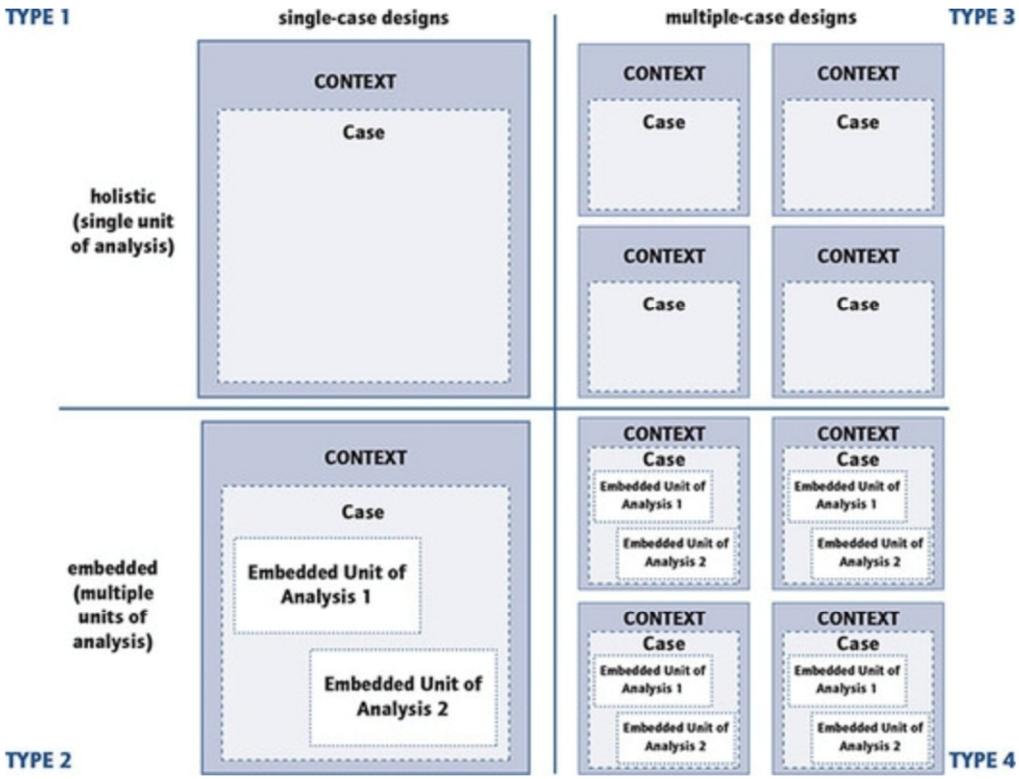
e. *Choosing an appropriate and effective data collection and analysis strategy.*

f. *Developing appropriate tests to ensure the validity and reliability of the approach taken in conducting the case study (p. 9).*

5.3.7 USING THE CASE STUDY METHOD

Using the case study method allowed insights as to why farm business owner-operators and or managers wanted to keep the farm in the family (or not) and what steps they took to give them their best chance of achieving the three main aims. Crosthwaite *et al* 1997 and Malcolm et al 2012 provide greater detail on the role of case study research in farm management analyses

In Figure 15 four types of case study design are shown. Types three and four have been used in this research.



Source: COSMOS Corporation.

Figure 15: Four types of Case Study Design

Source: Yin, 2019, p. 207

5.3.8 SELECTING THE CANDIDATES FOR THE CASE STUDIES

Informed by the surveys, owner-operators and or managers of farm businesses suitable for case study research were identified and their cooperation requested. The case study participants were selected, from a list of possible participants, known to the researcher, on similar criteria as used by Crosthwaite *et al* (1997). The selection criteria, which were developed following the surveys were developed to ensure that the case studies would enable contrasting of continuing farm businesses in a wide range of situations. The criteria were:

i. The farm has been in the family for three generations and has the capacity to remain in the family in the fourth.
ii. To ensure that the studies represented a range in the source of capital and dividends from external resources which underpinned the needs of the family.
iii. The studies included the major industries as defined by the ABARES. The ABARES groupings are wheat and other crops (specialised grain pulse and oil seed producers); mixed livestock-crops (sheep and or beef cattle in conjunction with broadacre crops); sheep industry (more specialised production of sheep and wool), beef industry (properties engaged mostly in running beef cattle); and sheep-beef (properties with a mix of sheep and beef cattle).
iv. To ensure that the studies were drawn from most parts of Australia study candidates located in South Australia, New South Wales and Victoria were selected. In addition, businesses from; Tasmania, Queensland and Western Australia have been included in the historical records.

The case studies used background information on both the internal and external factors, which have had an impact on the business in seven distinct ways, over time.

The five internal and two external factors are:

Internal

i. The age of the parents and their life expectancy when they started planning for succession.

ii. The readiness of individual family members to accept responsibility.

iii. The preparedness of the older generation to hand over and:

   a. An unclear employment relationship.

   b. No management or ownership transition.

   c. Family size.

   d. The expectations, education, skill, work ethic, aptitude of family members

iv. Annual issues which impacted upon the business, including:

   a. Enterprise Mix – Too many, too few, wrong enterprises,

   b. Poor understanding of price risk management,

   c. Business Structure – Debt equity ratio, scale, ownership structure.

   d. Risk– technical expertise, management expertise.

External:

i. Market Forces

   a. Commodity price cycles for wheat, wool and beef.

   b. Interest rates, Inflation rate, capital growth.

   c. Market shock, for example an incursion of foot and mouth disease.

ii. Climate variability and plague–seasonal, variability, drought, flood, fire grasshoppers.

The businesses in the studies range in capital value from a little over $2,000,000 to over $380,000,000. A letter of the Greek alphabet is used for the name of each family in case studies.

In addition to the selection criteria identified the individual studies were selected because they were representative of many different sets of family farm business circumstances. Those circumstances have been described at the commencement of each case study by a short quote from a participant from each family. The quotes are:

- *We weren't going to live like peasants*
- *We wanted to be as fair as possible.'*
- *If the division were even, the farm would be sold.*
- *It was a modest start, but with share farming, off farm work and investments'*
- *If we hadn't had a succession plan the farm would have been sold*

- *The family told the directors to 'perform or sell'*
- *We could not allow it to be halved again.*
- *Our fathers bought it, but we have to pay it off'*
- *Dad and his brother always had the end game in mind.*
- *We were the stewards; it was not ours to sell.*
- *We wanted the next generation to be free to choose*
- *They kept selling land to fund their lifestyle.*
- *The family lost control of the board.*
- *There were too many shareholders.'*
- *They built it and then spent twenty years arguing about how to cut it up'*
- *We had succession completed then the next generation farmer changed his mind*

Each of the case studies has a short description followed by information about:

- The generations involved;
- Whether continuing or not continuing;
- Where the initial funds came from;
- Whether the business grew or not;
- Whether there were funds to enable retirement;
- Whether the business is viable;
- If the family members are satisfied with the share of assets;
- If the share of assets was even.

In addition to the sixteen case studies historical records of a further 100 businesses and six Succession Analysis and Planning (SAP) studies have been completed.

5.3.9 SELECTING THE CANDIDATES FOR THE HISTORICAL RECORDS

In addition to the sixteen case studies the historical records of a further one hundred business have been considered.

The information for each of the historical records was sourced from the researcher's files and those of a colleague, from cases accumulated over many years. The decision as to which individual historical records would be included was serendipitous. These Historical Records are numbered 17 to 116. The Succession Analysis and Planning (SAP)

case studies SAP 1 to SAP 5 allow an analysis of what is and what might be for some real succession planning situations.

When comparing success versus failure in achieving the three main aims of farming it should be remembered that in many respects both states (success and failure) are provisional. Succession plans are never complete because there is always a new set of circumstances developing.

5.3.10 DEVELOPING THE REPRESENTATIVE AND SUCCESSION ANALYSIS AND PLANNING STUDIES

The Representative Case Study was developed to show the difference between the feasible net worth growth, over time and the growth required to achieve the unrealistic hope of a family to pass on a viable farm and treat all the children equally. The five Succession Analysis and Planning (SAP) case studies have been developed from real situations to show how the planning may be developed by a family in transition to succession. The SAP case studies allow an imagined third party to develop a plan for an imagined future for the family in each study. In some of the SAP studies, as in life, more than one scenario is developed.

The data used in this study are shown in Chapter 6. The data have been drawn from questionnaires, case studies, historical records and the Succession Analysis and Planning Case Studies.

6 DATA

6.1 INTRODUCTION

Data were collected for this study from the sources referenced and from questionnaires and case studies.

6.1.1 PILOT QUESTIONNAIRES

All farmers and professional who were approached responded to the pilot questionnaire.

6.1.2 QUESTIONNAIRES

Forty-seven farm management professionals, who included farm management consultants, accountants, lawyers, rural financial counsellors and bank managers, responded to the professional questionnaire. The management professional respondents provided an assessment of 12 per cent (6,476 of 52,000) of broadacre farm businesses in Australia. Twenty-nine farmers of the forty-five surveyed responded to the farmer questionnaire

The early questions in the professional survey included procedural questions and ascertained where the professional was working and the length of time working as a professional in Australian agriculture. The questionnaires, including questions and answers, appear as Appendix 3 and 4.

6.2 THE MAJOR CASE STUDIES

Nine of the sixteen businesses studied will continue and look set up for a successful future though this number includes one business that has had a major change in direction. These farm businesses have the management and succession planning to achieve the required growth. They have handled succession in such a way that family relationships have been maintained with the next generation and the business has continued to be successful. Eight businesses that were studied had not planned adequately for succession, or at all and consequently have either (i) been sold, (ii) have remained in the family but are no longer viable, or (iii) have had significant changes in direction.

A summary of the 16 case studies is included below. See Appendix 5 for the 16 case studies in full.

6.2.1 MAJOR CASE STUDY 1: IOTA FAMILY

- *We are not going to live like peasants*
- Generation four/five. The business is continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.
- Bull breeding. >30,000 DSE, 2,300 ha including cropped area of 300 to 400 ha.

The Iota family has built a dynamic business. He is the fourth generation of his family to own and operate the home farm and his wife has a valuable skill set. The couple's three children all had post-secondary education and will be capable of contributing to the business. Two, who are now young adults, work in the business and the eldest has a high level of responsibility. The Iota family has a long history of well-handled succession and passing responsibility to the next generation.

Over the past thirty years the family has built the business in the high rainfall zone from 500 ha to 2,300 ha. The major enterprise is a bull breeding and the business runs over 30,000 DSE's.

The ten attributes, which the family claim have enabled the building of a successful business, are:

i. They worked as a couple and were prepared to 'have a go':

ii. They developed a common interest and were determined that they would not '*live like peasants'*. They believed they would need to grow the business to allow their children to follow them.

iii. They honed their individual skills to ensure that between them they understood their business, their cattle herd, genetic improvement and the industry.

> They did not always agree about the level of debt but in general terms they agreed.

iv. They are prepared to do things differently:

> This included almost every aspect of the business model, management, sale preparation and presentation and advice to clients.

v. Focus on the customer:

> While many of their competitors produce the sale animals that they want to produce, the Iotas continually try to look beyond the day-to-day situation and work closely with their clients to meet expectations.

vi. Seek external advice:

> They attribute much of the success of the business to the external advisors they have retained. Sometimes they have 'outgrown' individual advisors, but they have always maintained a cordial relationship.

vii. Allow the business to grow at its own pace:

> In practice that means when they have more stock than they can carry, they find more land through rent, agistment, lease or purchase and allow the herd to grow. At the same time, they keep a close eye on the balance sheet, cash flow, profit and loss and equity.

viii. Employ the right people in the right positions:

The staff situation is as stable as the continual growth allows. Individual employees have a high level of responsibility and delegated authority.

ix. Bring family members into the business:

That has already happened, with two of their three children now working in the business on a full-time basis. The elder of the two how holds a senior position in the management team.

x. Treat land as the base and keep the capital together:

This is fundamentally important to the Iotas. The female partner in the business said *the cattle make the money but we could not run the cattle if we did not have the land.*

The most important lessons from the Iota family are that they work hard, are prepared to 'have a go and they use the best technologies and advice they can find.

6.2.2 MAJOR CASE STUDY 2: UPSILON FAMILY

- *We wanted to be as fair as possible*
- Being an only child helped and with his father, he built the business from a small farm to a truly viable one and the eventual division of family assets amongst his three children will be 40/30/30.
- Generation; Four/five. The business is continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.
- Wool, prime lamb, 8000 DSE fodder crop

Between the father and son, the business was built from a small farm to a genuinely viable one. The eventual division of family assets amongst the three children will be 40/30/30 share.

Several important aspects have enabled this business to be successful. The attitudes and aptitudes of people in the business have allowed steady growth. They have done things well but have never made sudden jumps in growth. In 1955, the farm was worth

about $345,000 (in 2017 dollars). The land is currently worth $5,900,000 and the total value family assets is now $8,000,000. The family claim the average annual capital growth, over sixty years has been 4.9 per cent. At the same time, the farm has sustained, maintained and educated two families.

This business has suffered occasional significant financial pressures including those caused by the wool collapse of the late 1980s, drought in the1960s, 1980sand 2000s and the cattle collapse of the1970s, but equity has progressed steadily. The decision to move control from the previous generation to the current owner was easy because the current owner is an only child. The decision to move control from the current owner to his children has been carefully planned to allow a viable farm and a 40/30/30 per cent share.

The family asserted that the most important underlying elements to the success of their business are the personal attributes of the people involved. These attributes include:

i. Ability: Each family member has worked hard to develop the skills required to manage and grow the business.
ii. Respect: While family members have differing views, each had a high level of respect for each other.
iii. Determination to run a profitable and expanding business: This determination was evident in the resolve to buy land to ensure the farm would remain viable.
iv. A willingness to let go and have a go: Most of the families who owned small farms of a similar size to the Upsilon family have left the district. They did not '*have a go'*.
v. A determination from each of the older generations in turn to hand over to the next generation.
vi. Continually investing off-farm.

The Upsilon family is unlikely to be the first to adopt new technology and is unlikely to buy the farm next door. If the attributes that have underpinned the family decisions and past performance remain constant, the family farm and off farm investments will continue and there will be a generation of Upsilons to follow.

6.2.3 MAJOR CASE STUDY 3: RHO FAMILY

- *If the division was even, the farm would be sold*
- The farm was reduced in size in three successive generations. For it to remain viable, it needed to avoid further size reduction. There are four children. The family confronted the issues and the share is 79/7/7/7.
- Generation four. The business is continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; not an even share.
- Prime Lamb 8,000 DSE, 1,400 ha, 600ha crop.

To remain viable, the business needed to avoid further size reduction. There are four children in the Rho family, who as a family confronted the issues and the share is 80% to the farmer and 20% shared by the other three siblings.

In some families, it is accepted that the farmer will get the farm and the rest of the family will be content with what remains. That is the case with the Rho family. Succession up until this point was managed by continually sharing the farm between the farmers in each generation. As well as size reductions forced by family members, some of the farm was acquired for solider settlement. That explains why the farm was reduced to its present area.

The sharing of family assets, eighty per cent to the farmer and twenty per cent shared between three other siblings, was enabled by off farm assets. However, without the family confronting the issues, the current arrangement would not have been formed. The farmer in the current generation, made it clear that he was not prepared to spend twenty years working on the farm and then find that he had a quarter share. The conversation was blunt *'if you all want your equal share, we will just have to sell it.'* With a young family to consider, he made it clear that he would sell, go and do something else. However, his parents wanted to remain on the farm.

The lessons from the Rho family perspective are:

i. Individual families have the right to choose a course that suits them.

ii. In this case, fair does not mean equal.

iii. The family confronted the issues and decided to share the assets 80/20 soon after the farming son committed to running the farm.

iv. There is some unfinished business in the Rho family that will not be finished until the current farmers parents die.

v. For the current farmer relying on his parents Wills may be a dangerous choice.

There may still be some issues to resolve for the Rho family.

6.2.4 MAJOR CASE STUDY 4: LAMBDA

- *We share farmed, worked off farm, invested off farm*
- The seven children in the Lambda family were brought up to expect no handouts. They played together and they have stayed together. Two of the siblings farm and own the business including stock, plant and contracts and some of the land. Four of the others still share in the landownership and want to keep it. One preferred to sell the allocated share and this was managed amicably.
- Generation four. The business is continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.
- Beef cattle, prime lamb, wool. 30,000 DSE, 3,300 ha owned, 2,200 ha leased

In the early 1960's, the mother of the current generation of farmers, inherited three contiguous paddocks totalling 1,300 ha. They had no improvements, poor water and the place was infested with rabbits and wattle. In 2016 dollars, it was worth about $700,000. It barely carried 1,000 DSE.

Today, Home Farm, situated close to a major rural town with an annual rainfall of 550mm, is the centre of a farming operation that covers 3,293ha of owned land and an additional 2,162ha of leased land. The brothers run in excess of 30,000 DSE and, in addition, trade up to 4,000 prime lambs annually. Concurrently the family has built significant off farm investments. The farming enterprise alone is worth $20,000,000.

The brothers own the business. They own all the land except 1,200 ha which the two brothers and their siblings jointly own. They lease this land. Business expansion came in small steps, '*ensuring that we had livestock ready by leasing, vendor finance and family guarantees.'*

The parents set in place four guiding principles and the current generation has added a fifth:

i. Everyone is expected to work (and work hard):

   'We were all expected to pitch in and help'.

ii. If any of the children had time on their hands, their father would ensure that they had something useful to do.

iii. Whatever we have will be divided (absolutely) equally**:**

   a. *'The starting point was that family assets would be divided absolutely equally'.*

   b. Do not expect to be given money**:** But there is a difference between '*It's up to you'* and '*you're on your own'*. The reality was that there were no free lunches, but if any really needed assistance, it was forthcoming.

iv. Invest off farm.

   The primary area of off farm investment, at least initially, was to buy residential land and develop it. That strategy allowed the family to get leverage on the investment and add value by doing much of the work.

v. Be prepared to do a deal:

   This principal of doing business had a subset; which is, '…*and leave something in the deal for the next bloke*'. When the brothers were working to provide certainty for each other and their immediate families, they put a deal together which involved swapping land and keeping the houses they lived in. The attitude of give and take allowed them to reach agreement.

The Future:

There are mechanisms in place to ensure that if at some future time any of the family members do want to sell, that a valuation can be agreed. There are also restrictions on the number of siblings who can sell at any one time, the time between sales and an agreement that the sales must be to members of the family.

6.2.5 MAJOR CASE STUDY 5: KAPPA

- *Who would invest in a business with no future?'*
- Generation three/four. The business is continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.
- Wool, prime lamb, 9,000 DSE, opportunity crop.
- Without a succession plan the farm would have been sold. Who would invest in a business with no future?

With equity hovering around mid-sixty per cent and the older generation having progressively less energy, something had to change. The 2000 – 2010 drought had a negative impact, financially and mentally, on the people. Their banker was worried.

The Kappa parents had a further challenge. The father wanted to ensure that the farm remained viable, while the mother was determined that the eventual distribution of assets to their two children would be fair. In her terms, fair, meant close to equal. The eventual share between the two children will be 60/40 and the family has agreed that this is fair.

The introduction of the possibility of a succession plan triggered the imagination of the next generation. Returning home became a viable option. The succession planning process took about seven years. It was managed by a facilitator with input from the bank, the accountant and from a business advisor.

The three overall aims of the Kappa family, funds to enable retirement, a viable farm and happy non-farming children, are similar to the aims of most farming families.

Although the debt for their farming son will be high, it is manageable. The parents will be able to retire and their daughter has accepted this outcome.

The lessons from the Kappa family are:

i. Without a succession plan, the next generation would not invest time in the business.
ii. With the broad plan in mind, land was given to the next generation to allow borrowing to start paying out a sibling.
iii. Ensuring that a suitable house is provided for the exiting generation was essential.
iv. The farm had been falling behind in terms of productivity and the entry of a new generation created a huge amount of energy.
v. Without succession in mind, they would not have increased productivity.
vi. The plan evolved over seven years.

The Kappa family is well on the way to achieving the three main aims.

6.2.6 MAJOR CASE STUDY 6: PI

- The family told the directors to perform or sell.
- After the lean years following a wool price crash, the shareholders challenged the directors. 'Perform or we sell.' The business was turned around, several off-farm investments were made (unsuccessfully at first)and family members were encouraged to spend time on the properties
- Generation five/six. The business is continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.
- Wool, prime lamb and beef cattle, >100,000 DSE .> 1,000,000 ha

The Pi Family own and operate a large farming business based mainly on livestock production, located in the high rainfall and pastoral zones of southern Australia. The important factors are that the family is multi-generational, with cousins working together to govern and manage a business which in terms of capital investment is in the top 100 of Australian primary production business.

The family had been able to steer the business through 60 years of drought, rabbits, the depression, the 1974 cattle crash and many, mini collapses in the livestock industries, but the wool collapse of the 1990's took a serious toll on the business.

> '*The wool crash in 1991 is probably a significant milestone in the family. There were good returns up until then and then it went to almost no return*.'

Ten to fifteen years of disquiet culminated around 2004. The family members remained patient for a few years, but after a time they had enough. They demanded that the business perform:

> *Then there was an ultimatum on the table; profit improvement, or wind-up the company. That was a wake-up call and the Board brought those two positions to the shareholders. They didn't even get a seconder to wind-up the company, so everyone voted for profit improvement.*

They agreed that for the business to perform well production and financial goals were needed, to benchmark externally and within and to grow by developing existing properties rather than adding new properties to the portfolio.

This strategy, combined with solid off-farm investments and a strong shareholder engagement policy, has ensured that shareholders are satisfied with the new arrangements. If any shareholder becomes dissatisfied, there is an agreed method of buying and selling shares and they have implemented a 'Share Trading Post'.

The business was turned around. Several off-farm investments were made (unsuccessfully at first) and the family members were encouraged to spend time on and enjoy the properties. This engagement has ensured that the shareholders derive benefits in addition to the financial returns. The elements of the success according to the family include:

i. The implementation of the share trading post was a significant point. The investment is more stable.
ii. There is always a capital growth component in agriculture almost every farmer borrows against it, but the Pi family does not.
iii. Commercial property investment allowing leveraging against investments with a known income.

iv. A new acquisition policy to own more farming land, in addition to the commercial property.
v. Ensuring that returns from the land are optimised.
vi. Benchmarking to reinforce high levels of profitability.
vii. Leveraging on property interdependence.
viii. Ensuring that family members are welcome on the properties and at business events interspersed throughout the year.

The family has put a lot of thought into succession and there is every reason to expect that the business will remain in the family for future generations.

6.2.7 MAJOR CASE STUDY 7: MU

- *We could not allow it to be halved again*
- The farm was halved, then again and then again. The current owner and his brother reversed the trend and have now share with a viable business each. Over a 20-year period the Mu family claims to have achieved a 14% annual return to capital
- Generation four. The business is continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.
- Sheep, cattle, 2,000 DSE, 500ha crop.

Over twenty years, Mu claims to have achieved 14 per cent return to capital annually. Unless Mu was trading major assets such performance would be highly unlikely.

The growth strategy from when the current generation took over has been very deliberate. As soon as equity starts to rise above about seventy per cent, it is time to borrow and buy. The actual investment in land, commercial property or shares, is less important than the timing. The key to this is that there is little unproductive capital. Succession to the current generation and the division of assets to this generation, were both smooth and handled well with the help of outside professionals.

When asked if he had been able to buy the land that had been allocated to his sister, Mu replied:

> *I had to but it was a stretch financially, it's never easy. You find the money and make it work. We had it valued and paid according to value. I just borrowed the money.*

He now has 2,000 ha of highly productive land in the high rainfall zone of southern Australia running 20,000 DSE's.

He has pondered the question about how to hand the farm on and achieve the three aims, (funds for retirement, viable farm and satisfied family). He has started to grow the capital to make that possible:

> *It's massive. How do we create an income stream so that we are not putting our hand out to our kids – oh by the way we're giving it to you but there's quite a few strings attached where you're not going to get ahead because we're going to stifle you.*

That is the next challenge, but with off farm investments he is well on the way to meeting it.

The ten key elements to his success according to Mu are:

i. The starting point of an equal distribution between the siblings has underpinned family harmony.
ii. The decision to expand the farm before he came home.
iii. This decision enabled the family to retain a station hand where many families dispense with hired labour to accommodate the next generation. Retaining the station hand enabled Mu to have two mentors. The station hand helped him learn the practical physical skills and his father helped him with management. It also allowed him time to spend on development and growth plans.
iv. His attitude to risk and debt. Where most livestock farmers get nervous when debt is above twenty per cent Mu is comfortable with forty per cent debt.
v. The timing of investments is important. When the collateral is available Mu will borrow and invest. The only question is - what investment?
vi. When there is an opportunity, take it.

vii. Ensure adequate money is put aside for long-term planning, strategy and management.

viii. Involve the next generation when they are young.

ix. Demonstrate to the next generation that farming is an enjoyable business.

x. Mu and his wife take the concept of 'stewardship' seriously and want their children to each get the start that they had.

6.2.8 MAJOR CASE STUDY 8: SIGMA

- *Our fathers bought it, but we have to pay it off*
- Their Grandfather set up two brothers. The brothers kept buying more land. Their sons, this generation, then had to pay for it. More expansion, poor prices and some droughts did not help. However, droughts were nothing compared to the Swill franc loan. They borrowed one point five million and paid back three.
- Generation three/four. The business is continuing; funds from family; grew to enable succession; no funds to retire; viable farm; satisfied family; not an even share.
- Wool and prime lamb, Cattle, 50,000DSE, 2,000 ha crop.

Succession to this generation was dictatorial but it worked, albeit with a legacy of huge debt. Succession from this generation to the next generation is consultative with professional assistance. This generation will also hand on some debt to the next generation, but it will be manageable.

The Sigma study has some important lessons:

i. In generation two, two brothers realising that the farm was not going to be big enough when they both had families, managed to get a farm each. The present generation is benefiting from the start provided by their grandfather.

ii. In generation three, two brothers decided that the business had to be corporatised.

iii. The two brothers purchased land at such a pace that equity was low and as a result, the business almost failed.

iv. Borrowing off shore was a significant contributor to the near failure.

v. In Generation four, five sons started out working together. One brother, when he realised that the burden of debt was too great for him, was able to exit. The remaining four have been able to carry on the business through drought, the Swiss franc affair, the wool crash and low cattle prices and have effectively had to buy a significant proportion of the land that they now farm.

vi. The remaining four have agreed on the big picture for the future:

   a. They will lease the farms to the business on favourable terms.
   b. They will put money aside in good years to ensure that a dividend can be paid in bad years.
   c. They will start to involve the next generation in what is, effectively, a family forum, bringing the whole family together, providing them with opportunity to understand what working in your own business really means. This will give them then the opportunity to decide if they want to be part of the business, working either directly on farm, or in an associated business.
   d. They will be using the principles outlined in the 'Family in Business' model.

They have also worked out how the next generation can have input into the Board Effectively, they have appointed a family forum and a family council. They intend to develop a Shareholder Agreement and effectively a Buy-Sell agreement for the next generation.

With all of the steps they have put in place, there is every reason to anticipate that the business will carry on until the next generation have children who would want to be involved in a senior management level. That is probably thirty years from now. In preparation for those circumstances, the process will need to start again in a few years.

6.2.9 MAJOR CASE STUDY 9: EPSILON

- *Dad and his brother always had the end game in mind*
- A strong history of succession done well and brothers, with complementary skills, working well together to build the business, under pins this business.
- Generation three. The business is continuing; funds from family; grew to enable succession; funds to retire; not a viable farm; not a satisfied family; even share
- Wool and ram breeding. 12,000 DSE 4,000 ha.

The current generation's grandfather set up succession well and handed control to his sons when they were in their mid-twenties. Those two maintained the partnership until their children were also in their mid-twenties. The long partnership was successful because the brothers had common aims and complementary skills, one was a big picture person the other had a keen eye for detail. They also had the end game (the three main aims) in view.

At the point of handing over to the current generation the brothers ensured that the members (of the current generation) were free to do whatever they wanted to do, while they were also able to retain their 'share' of the family capital. This was possible because the first generation who started with 2,400 ha running 9,000 DSE built the business to 12,150 ha running between 60,000 and 75,000 DSE. Then 1,130 ha was purchased in the late 80's for around $670 per ha and was worth $3,400 per ha in 2016. That represents annual capital growth of eight per cent in land alone.

The business growth in the previous generation has enabled the current generation farmers to build their own business and to start to invest off farm so they can provide for their children in the same way as his parents provided for him and his siblings.

The current farmer now farms around 2,500 ha of 620mm rainfall country in south-eastern Australia running about 12,000 DSE.

The critical success factors identified by the Epsilon family include:

i. Succession that has been handled amicably for three generations and all indications point to successful transition from the current generation to the next.

ii. Creating the expectation that succession will be handled amicably.
iii. Instilling a sense of stewardship.
iv. Having a strong work ethic.
v. Building on the skills and strengths of family members.
vi. Building the business with the end point in view. Part of that end point is that, in each generation, as children grow and have their own families, they will almost certainly want to run their own business.
vii. Maintaining a stocking rate, which ensures that every year, is profitable.
viii. Being prepared to take a calculated risk and capture opportunities as they arrive.
ix. Intergenerational respect and admiration.
x. Ensuring that sufficient effort and thought goes into management and planning.

6.2.10 MAJOR CASE STUDY 10: ALPHA

- *We were the stewards, it wasn't ours to sell*
- They inherited a farm which had been divided through five successive generations. The business wasn't viable but as stewards they handed it on to the next generation
- Generation five/six; Business is continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; satisfied family; not an even share.
- Wool sheep, 2,300 DSE, 250 ha.

Faced with the situation many families would have sold and moved. However, Alpha, with a strong sense of family history and the burden of being the eldest child, resolved that selling was not an option. The farm has an annual rainfall of 700mm. It has never been truly profitable, but the business survived, the family was able to live in a manner that, they said, met their needs and the children were educated.

Handing the family farm over to the next generation was a difficult task that required the resolution of four key issues:

i. Would it be fair to hand over to one child?

ii. Should we force the children to be in business together?
iii. What gives the best chance of keeping the farm in the family?
iv. Should the share of family assets be equal?

It was a difficult decision and considering the above questions the Alpha family members are sure they've made the right decision. The land was share equally amongst the members of the next generation, who now farm together on land which they own as individuals. The enterprises have remained unchanged.

The key messages from the Alpha family were:

i. Some families place more importance on stewardship and keeping the farm in the family than on economic factors.
ii. In order to meet the stewardship obligations some families will forgo many of the trappings of modern life.
iii. It would be unfair to postpone the eventual decision about ownership by leaving it up to the next generation to decide.
iv. The best chance of keeping the farm in the family may be to share it up between the siblings.

    a. Individuals make choices and one choice, no matter what the consequences are can be '*It will not be sold on my watch*'.

6.2.11 MAJOR CASE STUDY 11: GAMMA

- *We wanted the next generation to be free to choose*
- He was given no choice and was burdened with the family expectation that he should carry on. However, he wanted to give his children room to do what they want. He and his wife decided to sell the entire seed-stock operation.
- Generation three/four. The business is not continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.
- Beef cattle, 26,000 DSE, 23,299 ha

The Gamma property has been in the family since the 1930's

> *My Grandfather talked about the sheep stud and said, 'That's your legacy, don't mess it up!' And they are pretty heavy weighted words in regard to his thinking.*

The Gammas then built a successful seed stock business, carrying on the family seed stock tradition but changing from sheep to cattle. When it came to succession planning for their children, the parents wanted to give them a choice to do what they wanted. Consequently, they decided to sell the entire seed stock operation, capitalising on the 2017 beef market prices.

> *'A mate of mine said 'You guys are in for a good ride' and I said 'Yes, wouldn't I be a silly fool if I didn't capitalise on it?'*

The decision was bold and it was not about money, at least not in the short term. The cash from the sale of cattle made succession easier. However, the main reason for the decision was to give the next generation the opportunity to do what they wanted to do, rather than what they were expected to do. In arriving at this decision, the family leaned heavily on outside professionals and trusted advisors. The Gamma family business is now a commercial operation, where some succession actions have been implemented to ensure smooth business operations. The next generation farmer is enjoying the challenge that lies ahead.

The lessons in this study are that:

i. Despite ninety years of sons following in the footsteps of their fathers, this generation has broken the tradition.
ii. They have allowed their farming son room to move and farm the way he wants too.
iii. They have also freed up capital that will provide them with more flexibility in the way they hand over assets to their other son, who may not want to farm.
iv. They have taken advantage of a market on a high level and have not been in a hurry to restock. For the moment, while prices are at current levels, they will renovate some pastures and short-term lease or take on agistment.

6.2.12 MAJOR CASE STUDY 12: ZETA

- *They kept selling land to fund their lifestyle*
- His grandfather, to uphold his position in the community, funded his lifestyle by selling a part of the farm whenever he was short of cash. In addition, the father was dictatorial and pushed his family away only, in old age, to recall one member when he could not manage the place.
- Generation six. The business is not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.
- Wool and cattle, 8,000DSE, 900 ha

The old man pushed the next generation away and kept selling parts of the farm and in addition, according to the family, was dictatorial and then recalled one member when in old age he could not manage the place.

Although the grandfather desperately wanted the farm to stay in the family, he did everything he could to make that less likely and more difficult.

Succession was easy for Zeta's grandfather when the farm passed to him. He was the eldest son. However, Zeta was not prepared to confront the issues involved in succession, so the business skipped a generation and at a time when the grandfather was lacking in clear judgement, his family had to sort it out.

Although they used appropriately skilled professionals, the journey was difficult because family communication was poor and relationships, strained at the beginning of the process, broke down completely. The question was 'If they do not have the ability to communicate how can people talk about succession?'

Zeta's 'Ten Commandments' for succession were described as:

i. *Start now.*
ii. *Understand and respect each other's feelings.*
iii. *Commit to the process.*
iv. *Commit to what is agreed.*

v. *Equitable is not always fair (and vice versa).*

vi. *Seek and verify sound professional advice.*

vii. *Set and adhere to 'ground rules'.*

viii. *In-laws can be 'outlaws'.*

ix. *Observe and focus on the outcomes.*

I. *Never lose perspective.*

And the lessons from the Zeta family?

As well as the 'Ten Commandments', it appears that previous generations became so caught up in community matters that they did not concentrate on the farm. The grandfather, the patriarch, was described as '*old school conservative'*. While he was managing the farm, he had a good run with wool and generally solid prices. He ran at low input and kept selling parcels of land to pay the bills. Apparently, he did not like being challenged, so few people, including family members, challenged him.

He managed to push the next generation away only to recall one of his children when in his dotage and he was not capable physically or mentally of managing the place. The recalled person was expected to assist but was not really allowed to make any decisions. If the current generation manages to create a viable business, it will be because of income from off farm investment and further injections of capital by the current generation.

6.2.13 MAJOR CASE STUDY 13: BETA

- *The family lost control of the board*
- The company battled drought, government policy, price crashes and each time got back to profit. *But when the family lost interest and then lost control of the board, they lost the company*.'
- Generation four. The business is not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; even share.
- Approximately $380 million in assets, Sheep and cattle

Once the largest private landholder company in Australia, S. Kidman and Co Ltd was sold for an undisclosed sum. The company-battled drought, government policies, price crashes and each time got back to profit. The family lost control of the Board and lost the company. Although it was sold at what appeared to be the top of the market, many family members regret the decision.

It is quite possible that if it was put to a vote again, the family could decide to keep the company. However, it is too late. In some ways, the sale of the business cannot be seen as a business failure, because it was sold for an acceptable sum.

The lessons of study are clear.

i. In any family business, shareholders must remain in control of the Board.
ii. The company had withstood every obstacle from nature, markets and governments. It had come back from the brink of financial ruin on at least two occasions. However, it could not withstand the disinterest of its shareholders.
iii. Agricultural investments require patient capital and to be patient, shareholders may want to be involved.
iv. There was no company succession plan. Either it would be kept, or it would be sold.

6.2.14 MAJOR CASE STUDY 14: THETA

- *There were too many shareholders.*
- They wanted to keep farming, but it was not realistic to do so. There were too many shareholders as the shares were handed on from generation to generation. The sale was a clever move and the business was sold, with the value paid for the business systems policies and protocols (intangible assets). A family member has remained as manager for the new owners.
- Generation four/five .The business is not continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share. *He could see that it would be necessary one day, mainly because of the unequal shareholdings, so it was best to sell it at a time and in a way, which*

would give the best result.

- Wool sheep and beef cattle , 25,000 DSE 3,550 ha, occasional crop

The Kininmonth family purchased Mt Hesse in a walk-in-walk-out sale. They family wanted to keep farming, but it was unrealistic. There were too many shareholders, as the shares were handed on from generation to generation.

The business survived drought, rabbits, the depression, wool and cattle collapses and having a large area of land resumed for soldier settlement. It survived the wool collapses of the 1990's, when gross farm income decreased from over $1 million to $300,000 in one year. That reduction in income was particularly difficult to endure. The family ensured that the property was maintained. *'The gates were hanging and buildings had new spouts on them, all that sort of maintenance was done.'*

Although the shareholders were engaged and encouraged to visit the property, it became obvious that as the next generation became involved and the number of shareholders multiplied, that it would be difficult to provide sufficient returns. The deliberate strategy was to sell when market conditions were favourable.

The business was sold with the intangible assets (systems, policies, staff) being valued.

> *'In the end they had an inspection, we all had dinner together and they accepted the pre-prepared contract, virtually without amendment.'*

A family member has remained as Manager for the new owners.

The key lessons from the Theta study are:

i. Keep the shareholders engaged.
ii. Be aware of the dangers of parcels of shares becoming diluted.
iii. Have a shareholder agreement that sets rules about the dilution of holdings.
iv. Ensure that the business is 'sale ready'; that means having it ship shape.
v. If you sell, sell on a walk-in walk out basis, where the intangibles are valued and paid for.
vi. When selling a 'trophy property', manage the sale carefully.

vii. In this case, unlike the family, the corporate owner is prepared to re-invest the annual profits continually.

6.2.15 MAJOR CASE STUDY 15: DELTA

- *They built it and then spent twenty years arguing about how to cut it up.*
- Three brothers took the business from 3000 to 13,000 ha in one working lifetime. However, they spent 20 years and hundreds of thousands of dollars arguing about whether to break it up. *'The legal and accounting costs were enormous.'*
- Generation four. The business is not continuing; funds from family; did grow but not to enable succession; funds to retire; not a viable farm; not a satisfied family; even share.
- Sheep, cattle, crop. 50,000 DSE, From 1,200 to 5,300 ha , 800 ha crop

Why did the family that had grown a 1,200ha farm to 5,300ha farm over fifty years end up selling it at a liquidation sale?

The Delta family ran a successful sheep, cattle and cropping business in a 730mm rainfall area west of the divide in southern Australia. The second generation handed over ownership to generation three when the eldest of that generation was in his late teens. The transfer was part of a strategy to avoid death duties. Generation three ran the farm successfully allowing some of the sons (generation four) to return home in their early 20s. At that point, in the 1960's, generation four started to grow the business further.

The development plan was simple; three years of crop, then pasture with cattle grazing for two to three years and then sheep grazing for four years. As soon as they had too many livestock for the area, they farmed they would lease more land, then purchase it usually borrowing all the capital. The growth to 5,300ha was as steady as the final sale was abrupt.

While there was often tension between the brothers, they agreed on the important issues and kept out of each other's way by dividing responsibility for the management

of the sheep, cattle and crop. In the late nineteen-nineties, consultants were engaged to assist in benchmarking and they advised the family to start succession planning.

Over twenty years the Delta family worked with thirteen succession planners. Each time they ended up with no progress and a bemused, confused, sometimes slightly damaged succession planner who would be dismissed. The brothers would start again with a new planner.

The brothers decided eventually to appoint a liquidator to sell all the assets. The controlling brother tried, once again, to play for time, but eventually had no alternative other than to sign the agreement.

The four lessons from this case study are:

i. The business grew in size and value, where it went from 5,000 DSE's to 50,000 DSE's with about seventy per cent equity. The starting capital in 2016 values was about $2.2 million. This grew to a real net value of $7.4 million or almost $26 million in 2016.
ii. Failure to agree on how to dissolve the partnership led to liquidation a sale a discounted sale price estimated to be around forty per cent.
iii. The method of the engagement of the planner was flawed. One of the brothers had a habit of pressuring the succession planner. When progress was apparent this family member would change some important matter and stop the progress. The lesson is that all communication between all the family members and the planner must be transparent.
iv. If the family had a shareholder agreement, with an enforceable buy-sell arrangement they would not have ended up as they did. Buy-sell agreements can provide a mechanism to allow resolution of the issues.

The legal mediation process ended with agreement to liquidate. It did not take long for word of a fire sale to spread and the value to drop. The cost in time and professional fees, combined with lower production towards the end of the company life and the fire sale of the assets put the total cost at about $3,000,000. Members of the family reported that the emotional cost was huge and the family is fragmented.

6.2.16 MAJOR CASE STUDY 16: TAU

- *We had the succession plan finalised. Then the next gen farmer changed his mind*
- They thought they had the succession plan completed They thought the family member who wanted to farm was smart, industrious, hard-working, suitably experienced and educated and so he was appointed as manager and given some of the land. *'Then he changed his mind.'*
- Generation Three/four. The business is not continuing; funds from family; grew to enable succession however, succession failed; no funds to retire; not a viable farm; not a satisfied family; not an even share.
- Wool sheep and crop. 6,000 DSE, 7.30ha 200 ha crop

The family member, who took over the farm, came to believe that his debt was too great. He started to question his decisions.

Succession in this family had been handled well. There were no demands from the bank. The business was growing and profitable, but still it failed. It failed through a lack of confidence in the generation that needed to keep it going.

In reflection on the failure of the business, Tau who was handing the business over to his son Tau B was philosophical. He thought that in Tau B's mind there was an element of *'we are getting out of our depth as far as debt was concerned.'* However, in Tau's view, the debt was manageable; they were not paying off land. However, Tau B wanted to purchase more land and did not have the collateral. Tau suspects that Tau B and his wife were looking at peers in their cohort who have an easier life in other businesses. '*Perhaps it's a case of grass is greener over the fence. That may not be a fair comment. I just do not know.'*

The important lessons from this study are:

i. Building scale does not automatically mean increasing profitability.

ii. There is always the possibility that the person who returns to manage and take ownership of the farm will change their mind. The implications of that possibility could have been be considered.

iii. Gifting land without some guarantee or undertaking from the person who receives the gift is an imprudent move.

iv. Allowing a situation where a key parcel of land, including the entire important infrastructure can be sold to an outside party is also imprudent.

v. Relying on goodwill created a difficult situation.

vi. The business expanded in co-operation with family members and neighbours, but it was the decisions of the family members, not the neighbours, which caused the venture to fail.

6.3 SUMMARY OF THE FINDINGS FROM 100 HISTORICAL RECORDS

A brief summary of the historical records is shown in section 7.5. Full summaries of the individual historical records are included in Appendix 6. As with the Major Case Studies, each of the historical records has a short description. This is followed by one line which includes: the generations involved, whether the business is continuing or not continuing, where the initial funds came from, whether the business grew or not and whether there were funds to enable retirement, the business is viable, the family members were satisfied and if the share of assets was even.

6.4 THE SUCCESSION ANALYSIS AND PLANNING AND REPRESENTATIVE CASE STUDIES

The key financial principles relating to debt, equity and growth of farm businesses and the role of finance in farm business growth and survival are introduced in five real Succession Analysis and Planning Case Studies (SAP) and analysed. The applications of these principles are demonstrated. A sixth case study, the Representative Case Study has been developed to investigate the time required to build a business that has the capacity of enabling the family to achieve the three main aims. These SAP case studies are viewed from the perspective of various family situations and use the principles of

finance that have been developed over the past century and which are brought together in Hopkin et al. (1973), Barry and Ellinger (2012). The focus is on the role of debt, equity, liquidity in the process of firm growth. Hopkin et al. (1973) Barry and Ellinger (2012) define the growth process as *'acquiring control of additional resources which will continue to generate returns in excess of their cost and which will thus add to the present value of the firm'* (p. 148).

An underlying assumption made by Hopkin *et al.* (1973) was that investment opportunities are available for funds generated by firm growth. When considering growth and gearing, in increasing a farmer's wealth over time, Makeham and Malcolm (1993) stressed, that using credit to increase the earnings of the firm's resources, the increase in earnings must exceed the cost of borrowing and the cash flow available in the farm system has to enable the principal on the loan and interest to be repaid.

Central to the SAP case studies is the relationship between debt and equity and the rate of return on borrowings. This relationship governs what the owners of the farm business will eventually be worth (Makeham and Malcolm 1993). The SAP case studies follow Barry and Ellinger (2012) who differentiate between measures of growth, (area, tons, head, financial) and the economic environment (the underlying rate of inflation) for growth. Barry and Ellinger (2012) define growth as '*increases in business size'* and rates of growth as '*how fast changes in size occur over time* '(p.105). The measure of firm growth used in the SAP case studies is net worth, rather than farm area, livestock numbers of area of crop.

In the SAP case studies, where the farm businesses are designated as Eta SAP 1, NU SAP 2, Omicron SAP 3, Chi SAP 4 and Xi SAP 5, the cost of capital, growth and gearing are key measures. The real and nominal cost of capital is differentiated. Hopkin *et al.* (1973) and Makeham and Malcolm (1993) demonstrate that the expected annual market rate of inflation has to be added to the real interest requirement of borrowings to estimate the nominal interest cost of a loan. For example, if expected inflation is three per cent per annum then the lender will require five per cent real return plus three per cent to cover the expected inflation effect, giving a nominal interest rate of eight per cent. For the five per cent real return to be achieved, it is necessary to allow for three per cent inflation on that component as well (adding 0.05+0.03=0.08). The

full market rate of interest is: Market interest rates (M) comprise a real component (r) and an expected inflation (f) and adding to real inflation (rf). The formula is M=r+f+rf.

In addition, using the Barry and Ellinger (2012) model as a guide to analyse the options available to the individual SAP case study farm family who may be contemplating their options for succession, a simple model of future firm growth is used, with variables being:

i. levels of equity,
ii. levels of farm performance, i.e. annual average return on capital managed and annual net cash flow before and after debt servicing
iii. required real returns
iv. expected inflation and nominal rates of interest
v. changes in the length of planning horizon, i.e. time to implement the succession plan.

Note that the economic and financial modelling provides information about succession; information that is useful and adds to other non-economic information involved in decisions about succession, such as subjective human elements of the decision like aspirations, sentiment, wants and relationships.

In practice farming business decisions, including decisions related to capital investment and business expansion, are often made with little explicit consideration or analysis of key principles about farm financial management or of underlying farm management economic theory. In some cases where the older generation has decided that keeping the farm in the family is the most important of the three main aims, then funding retirement and providing for the non-farming children become minor goals. In other cases where the older generation may decide to sell the farm to fund retirement, or when there is no successor, human wants and needs override other considerations. The aforementioned situations can be viewed from the perspective of the three main aims:

i. Funds to enable retirement:
    a. The farmer may not want to retire but sufficient funds enables choices.
ii. An economically competitive and financially viable farm for the child or children who want to farm:

a. If any want to farm;
b. Viable may involve the next generation taking on considerable but serviceable debt and earning off farm income.

iii. Sufficient resources for the non-farming children to be satisfied with the outcome of the succession plan:
   a. Often a successful plan is one where no interested party is overjoyed but equally, none are harbouring resentment;
   b. A 'Satisfied Family' means the satisfaction of self-interest, to an agreeable degree, overall and including the self-interest of care and reward from seeing others involved also being satisfied with outcomes.

Decisions relating to the three main aims of farm succession involve many human considerations and are always complex. In many cases, the human considerations have a stronger influence on family decisions than the economic and financial factors. These human matters may include; the '*need*' of the older generation to hold the position of 'farmer' both in the community and in the family, sentiment and a range of needs and wants of family members.

Voyce *et al.* (1989) identified the key elements of succession as:

i. Identifying the needs and aspirations of each family member in each generation.
ii. Building and maintaining relationships between family members
iii. Transferring management and control of the farm
iv. Transferring ownership of the farm.
v. Leaving a viable farm to the children.
vi. Preparing for retirement
vii. Treating all children fairly but not necessarily equally. (p.4-9)

The Voyce *et al.* research makes no mention of the financial principles, while the farm finance and farm management economics writers Hopkin *et al.* (1973), Barry and Ellinger (2012) and Makeham and Malcolm (1993) pay little attention to the human or non–economic elements of family business decisions. The authors have paid attention to factors involved in growing the business to keep up with declining terms of trade.

This research seeks to understand how and why family farm businesses have grown to achieve succession,

Santhanam-Martin *et al.* (2018) investigated blockages to succession which they termed 'sources of stuckness' and, in the agricultural economics literature, 'asset fixity'. This is where the use value of assets is more than salvage value but less that the acquisition price. (Johnson, G. 1956). Santhanam-Martin's 'stuckness' included business asset fixity and profitability

> *The source of stuckness can be a farm's lack of commercial viability. Perhaps it is too small to be profitable in contemporary market conditions, or current management is producing poor performance, or debt is too high… a fundamental issue about farm profitability that needs to be resolved in relation to any future decision making.* (p. 11)

Regardless of size and profitability, not all farm families share the three main aims, but all have five possible futures for the farm. These are:

i. Retire/die sell
ii. Hand over to one child with the result that the other children will not have self-interest satisfied
iii. Hand over and ensure the self-interests of all family members are satisfied
iv. Build and retain a multi-generational business.
v. Build a business to sell as a going concern where it is sold on a walk in, walk out basis complete with the management systems and, in some cases, the management team.

The aim of keeping a viable farm in the family may or may not be shared by the whole family. In cases where there is family division, the decisions for the older generation are more difficult to make. In some cases, family members are passive and in other cases, individual members are working actively to achieve their individual aims.

Chapter 7 commences with the findings from the questionnaires and case studies. These findings are followed by an analysis of the activities and attributes of the people described in the major case studies and the historical records. A Representative Case study which is fictional has been developed to show the gap between the likely possible future net worth and the aspirational but unrealistic future net worth goal of a family.

The Representative Case Study lays the foundation for the Succession Analysis and Planning Case Studies which are discussed in detail in Chapter 7.

7 SUCCESSION QUESTIONNAIRES, CASE STUDIES AND HISTORICAL RECORDS

7.1 INTRODUCTION

The theories that are the basis of the study have been developed by, Penrose (1995), Barry and Ellinger (2012), Collins (2001) and others. These texts describe attributes of the businesses and or of the people who own and manage them.

Few farm businesses in Australia pass smoothly from one generation to the next for several generations. In this chapter the meaning and meaningful conclusions which can be drawn from the findings are discussed. The findings have been drawn from the questionnaires and each of the case study sets. The sets are the Questionnaires, Sixteen Major; the One Hundred Historical Records and the Six Succession Analysis and Planning (SAP) Case Studies. All the case studies relate to the three main aims of family farming. These are to:

i. provide adequately for retirement;
ii. pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
iii. provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

7.2 ADVISOR QUESTIONNAIRES

The results of the Professional Questionnaire included the collective judgement that the vast majority of Australian broadacre family farming businesses do not have the scale to enable the three main aims of farming to be achieved.

The advisor assessments of the percentage of farmers able to achieve the three main aims was:

i. 45% of advisors think <20% of farmers could achieve the three main aims
ii. 20% of advisors think between 20% and 40% of farmers
iii. 25% of advisors think between 40% and 60% of farmers.
iv. 5% of advisors think between 60% and 80% of farmers.
v. 5% of advisors think >80% of farmers.

The questionnaires indicated that the majority of the Australian broadacre family farm businesses surveyed have no succession plan and that there was conflict within decision-makers and between them and interested parties, which may be acting as a block to the development of plans for succession. For many farm owners, the continuation of farm ownership within the family was more important than family harmony or the satisfaction of self-interest of all family members. To the extent this sample of farmers surveyed is representative of the wider population of Australian broadacre, it is possible that many Australian broadacre farmers are in a similar situation and do not have a succession plan. There are several reasons for this and the professional surveys indicate that they include but are not limited to:

i. The family business history in relation to succession
ii. The aims of the generation in control;
iii. The success of the generation in control in achieving those aims;
iv. The aims of individuals in the next generation;
v. The success of the next generation in achieving those aims.
vi. The realisation, on the part of the owing generation, that succession of a viable farm to one child will mean a very unequal distribution of family

assets. Faced with this realisation many families, either by default or design, take no action in relation to succession.

The issues most frequently highlighted by the professionals were:

i. The importance of planning (14)
ii. Ensuring effective communication (10)
iii. Start planning early (10)
iv. Manage the expectations of the next generation (7)

7.3 FARMER QUESTIONNAIRES

The farmer questionnaires provided useful information in the preparation of case study interviews. They also provided qualitative data in direct comments, which included:

- Talk about it.
- Set expectations into the child's mind.
- If expectations are met, conflict rarely arises.
- All parties [need] to have a good education and to be receptive to advice.
- Seek good advice from experienced advisors to lead process.
- Understand options and be realistic about value of assets.
- Give succeeding party time to buy out off-farm siblings.
- Retiring generation to be supportive and active in succession plan.
- Strive to be fair but not necessarily equal.
- Recognise the time value of money.
- Recognise and listen to when next generation want to take on management. That energy needs to be captured
- Ensure there is no pressure to pursue a career in agriculture if it is not what you love
- Sow the seed with children when they are young, having interests such as chooks, pet lambs, planting trees etc., and enjoy the lifestyle together.
- Begin succession early.
- Split assets between children in a fair manner that may not be equal to keep farm viable.

- Don't force anything onto someone if they don't want to do it
- Talk openly about transition often. Be ready and encourage next generation to make decisions. Ensure regular management meetings.
- Hand over management responsibility at a young age
- Consult in a meaningful way with [the next] generation
- Consultation and record what was agreed
- Give [the next generation] responsibility. Do not tell them how to do things all the time. Wait for them to ask for advice.

7.4 THE SIXTEEN MAJOR CASE STUDIES

The subject businesses in the sixteen major case studies were chosen from businesses known to the researcher. Each highlights a particular aspect or aspects of strategic planning and business management. Eight of the businesses in the sixteen, look set to continue for another generation. The other eight have either been sold, changed direction, or have remained in the hands of the family but are no longer viable.

In general, families in which the three main aims have been achieved have defined time bound objectives and plans to meet these objectives. The objectives have been followed by actions to implement these plans. Where the three main aims have been achieved:

1. The controlling generation set out to achieve them and they:
    - *i.* Concentrated and worked hard
    - *ii.* Employed and or retained the best people available
    - *iii.* Provided choices for following generations
    - *iv.* Expanded the capital base of the business in real terms.
    - *v.* Ensured family cohesion within and between generations,
    - *vi.* Managed expectations of individual family members.
2. The family accepted that the plan will always be a work in progress because:
    - i. People change their minds
    - ii. Die unexpectedly

   iii. Unexpected circumstances, external to the business, including poor seasons and markets and government policy can create an environment that results in setbacks in the execution of the plan.

3. The family ensured that the business consistently performed at a very high level to achieve the three main aims.
4. Many of these measures are difficult to quantify but other measures of family and business actions can be measured. These measures include:
   i. There is a history in the family of achieving the three main aims.
   ii. Control was given to the next generation at a young (younger than mid 30's) age.
   iii. There were injections of family capital to aid succession.
   iv. The family develop succession growth goals.
   v. Siblings worked together to build a business which could be split.
   vi. Off farm income contributed to enabling succession.
   vii. The family increased livestock numbers beyond capacity, leased land to carry them and then used the accumulated increased livestock as collateral for further land purchases.
   viii. The family bought and sold (traded) land.
   ix. Share farming was a factor in enabling business growth.
   x. Livestock stocking rates were at the higher end.
   xi. The family started a new business.

No individual action will ensure the achievement of the three main aims nor will the absence of any of the actions listed mean that the three main aims. Control was handed over at a young age in all of the businesses that will continue whereas in the businesses that will not continue 59 per cent were given control at an early age. Calus and Van Huylenbroeck, (2008) point out the importance of having a successor ready to take over. Seventy-three per cent of those families in which the three aims were achieved had a long history of successful succession and had started to involve the next generation in the business at an early age. Conversely, only 24 per cent of families in which the three main aims were not achieved had a history of successful succession. History matters (Penrose 1995).

A key aspect of the planning process is a strategic plan with emphasis on a SWOT analysis (Shadbolt 2008). Kaine *et al.* (1997) found that *'planning for succession should be an integral part of the long-term business plan for the farm' (p. 9).* Of the continuing businesses, 93 per cent had set succession growth goals whereas only 23 per cent of non-continuing businesses had set such goals. There are stark differences between the continuing and non-continuing businesses, particularly in the way siblings worked together (or did not) and in relation to off farm income, share-farming, trading land, building livestock numbers and leasing, maintaining higher stocking rates and establishing a new business.

7.4.1 COMPARING THE BETA AND PI FAMILIES

The Beta family sold the business, but the Pi business will remain in the family for the near future. Both the Beta and Pi families have been involved in the farming business since the 1800's. Both ran extensive livestock enterprises in low rainfall pastoral country and some 'inside' country in the high rainfall zone. Both employed people from outside the family at a senior level. Both businesses have net worth above one hundred million.

The two businesses were similar in that they were profitable, had a spread of enterprises and had performed well. However, the Beta family lost control of the Board and the family became disenchanted. Expertise from non-family Directors was seen to be important and the Board became dominated by non-family Directors. In low profit years the dividend was minimal, family members were discouraged from visiting the properties and very few worked in the business. When the family became disenchanted the business was sold. In contrast, the Pi family kept control of the Board and ensured that family members had a real interest in the business. Pi family members have been encouraged to visit the properties and to work in the business. The family, although it has outside Directors, controls the Board and encourages family participation in the business.

7.4.2 COMPARING THE IOTA AND ZETA FAMILIES

The Iota and the Zeta families also show stark contrasts. Both the Iota and Zeta businesses are situated in the high rainfall zone in southern Australia. Both businesses commenced in the late 1800's and both ran sheep and cattle. Historically neither family had a bull breeding business. The Iota business started as a small business and has grown progressively over time to support a team of eight people, including four family members. The Zeta business started as a large business, once supporting a team of ten people, but has shrunk progressively over time and is now a small business that requires off farm income to rebuild infrastructure and support the family.

The Iota family was determined that they '*were not going to live like peasants'*, while the Zeta family was determined that they *'were not going to look like peasants'*. The principals in the Iota family worked together as a team where the family concentrated on teamwork and team decision making. The principals in the Zeta family, while they were a team as a family, in later generations were not a team when it came to the farm business and the patriarch of the family was autocratic in his leadership style.

In the Iota family there was a long history of succession and involving the next generation in business decisions while still in their teen years. In the Zeta family next generation was discouraged from involvement in the management of the business.

7.4.3 COMPARING THE SIGMA AND LAMBDA FAMILIES

The Sigma and Lambda businesses have both grown but with different risk profiles. The two businesses have their headquarters within two hours driving time of each other and have farming land in similar environments in the high rainfall zone of southern Australia. Both businesses run sheep, cattle and crops and are much bigger in area and turnover than their surrounding neighbours.

The Sigma brothers, who were the fathers of the current generation, continued to grow the business. They took the land area from 1,700 ha to 7,800 ha in forty years. That is an average growth of 152 ha per year. The problem was that when the current generation took over, the wool market had collapsed and equity was down to fifty per

cent. The family borrowed money in Swiss francs and that made matters worse. The main reason the bank postponed foreclosure was that it would have had lost too much if it had forced liquidation. One of the now partners in the Sigma family had a sudden realisation that at close to sixty years of age he had better start to prepare for his own retirement. As with the rest of his family members in the business, he had been so keen to reduce business debt that he almost neglected to look after his own financial affairs.

In contrast, the Lambda brothers grew the business over a thirty-five-year period from 1,761 ha of owned land to 3,293 ha of owned land and a further 2,162 ha of leased land, giving a total farmed land of over 5,500 ha. The important difference between Lambda and Sigma is that the Lambda family maintained high equity. At the same time as they were buying and leasing more farming land, they were buying residential land in a nearby large town so that at any time they had equity in investments other than the farming business. The off-farm investments were in areas where they could do some of the development work. The Lambda family business was not ever in danger of losing bank support.

7.4.4 COMPARING THE DELTA AND EPSILON FAMILIES

The Delta and Epsilon families are similar to the Sigma and Lambda families in that their businesses are large and are situated in close proximity to each other in the high rainfall zone in southern Australia.

Two pairs of brothers farmed together from youth. Both pairs built large and apparently successful businesses from a modest beginning. The Epsilon Bros used their different talents and combined them so that when, as seemed inevitable, a split was necessary, the split would be orderly and advantageous to all. *'It took about an hour to agree'*.

In contrast, the Delta Bros took twenty years of argument to eventually agree to appoint a liquidator to sell and distribute the assets. In the Epsilon family, each member received what they wanted from the distribution of family assets. That happened because as assets were purchased, the purchase was designed to allow individual independence at some future point. In the Delta family liquidation, no-one got what

they wanted and although those who continued to farm purchased their farms at low values, the whole family lost up to forty per cent of its net worth.

7.4.5 COMPARING THE UPSILON AND ALPHA FAMILIES

Both families had several generations of history of continuous occupation of the family home. Both farm in the high rainfall zone in southern Australia and followed their passion in breeding livestock, with both families becoming successful and leaders within their industry sector.

The main difference between the growth of the Upsilon business and maintenance of size of the Alpha business is attributable to the attitude to risk and debt. While both have been careful and prudent, the Upsilon family has been prepared to borrow heavily to expand by buying out family members. In contrast, the Alpha family has not been prepared to borrow to expand their portfolio, but rather has sold land and not replaced it.

The Upsilon business has the capacity to provide a viable business for the family member who wants to farm and treat the other children almost equally. The Alpha business, while providing for all family members in an amicable way, will not leave any member of the next generation with a viable business.

7.4.6 COMPARING THE RHO AND MU FAMILIES

Up until the current generation, the Rho and Mu Families had a similar history of succession through reduction in farm size. In the Rho and Mu family histories, a big farm was halved and then halved again. The Mu family managed to share the family wealth almost equally in the share to the current generation. By contrast, the Rho family decided that in order to ensure that a viable farm business can continue, the share was eighty per cent to the farmer with the remaining twenty per cent divided between the other siblings.

Both approaches are valid and both have worked amicably for the families involved, however the Mu family provides a method that can ensure a distribution of family wealth that is nearer to equal than that of the Rho family.

7.4.7 COMPARING THE KAPPA AND TAU FAMILIES

The Kappa story is simple. There was a real danger that the farm would be allowed to run down because no one from the next generation was committed to run it. Without a succession plan the farm would have been sold. The family needed the plan to outline the future. No one was going to invest time or money in a business without a future.

The Tau story is also simple. In a family with three siblings, one wanted to farm. After jackarooing and formal education, he returned home. After about five years, he started to assume control of the business on a day-to-day basis. When he expressed interest in ownership, over time, he was gifted land. He then changed his mind and decided to pursue a different career. This left the family in a difficult position because the departing member owned land with improvements that were vital to the future of the farm.

7.4.8 COMPARING THE LAMBDA MU, SIGMA AND RHO FAMILIES

The Lambda study is an example of a successful business growth strategy, with growth achieved by continuing with no change in the enterprise mix. Two brothers, Allan and George now jointly own and manage the business. Most of their siblings (six in all) are joint owners in a portion of the land. The siblings who are involved in land ownership are happy with the financial return on the investment and have no plans to sell. There are mechanisms in place to ensure that if in the future any family members do want to sell, that a valuation can be agreed. There are also restrictions on the number of siblings who can sell at any one time, the time between sales and an agreement that the sales must remain within the family.

In other businesses growth strategies have included the development of the Iota family's bull breeding business significant off farm investment by the Mu family, the

Epsilon Brothers working together and building on their individual strengths and the Sigma brothers aggressively buying land and leaving it up to the next generation to pay for it. However, the Sigma family business nearly ended in failure because of off shore borrowing.

It is important that any business success is measured against the stated aims of the owners. In most of the case studies the families shared the three main aims of farming. In some families an additional aim has been to share the family wealth as near to equally as possible. In one case, the Rho family, the viability of the farm took precedence over the near equal distribution and the family concerned has accepted that.

7.4.9 CONTRASTING ATTRIBUTES

The contrasting attributes of the case study businesses which are or are not continuing and the people who own and manage them are shown in Table 4.

Table 4: Contrasting Attributes of Continuing and Not Continuing Businesses

Business continuing	Business not continuing
An absolute determination to grow the business to enable succession	The belief that achieving the three main aims wasn't possible
Intelligent leadership	Autocratic, patriarchal behaviour
A history of well thought out succession	Poor history of succession
Progressive farm management	Doing things the way we always did
A focus on the customer	What customer?
The intelligent use of capital	Using capital to support the lifestyle
Preparedness to go into debt and maintain low equity	Totally debt adverse and maintaining lazy capital in the business
Deliberate strategies to woo stakeholders	A strategy of keeping them off farm and disengaged
Managing with humility and quietly going about your business	Maintaining your position in the family and society as somebody very important
A determination not to **live** like peasants	A determination not to **look** like peasants
A common end game goal	No agreement about the end game
Respectfully challenging advisors.	Threatening advisors.

7.4.10 BRINGING THE TEXTS TOGETHER

In order to bring the theories and texts together each case study business has been assessed against fifteen criteria. The assessment is shown in Table 5.

Table 5: A summary of the Case Studies in relation to fifteen criteria

Case Study No.	Case study Symbol	Started with end game in mind			Plan is work in progress			Business consistently performs			Started planning					
		Set clear goals	Provide choices	Expanded capital	People change	Response to season variation	Response to markets	Funds for retirement	viable farm	self-interest is satisfied	Ensure family cohesion	Concentrate and hard work	Retain the best people	Grow steadily	Manage expectations	prepared to let go
1	Iota	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2	Upsilon	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
3	Rho				✓	✓	✓		✓			✓		✓	✓	✓
4	Lambda	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
5	Kappa	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓
6	Pi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
7	Mu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
8	Sigma	✓	✓	✓		✓	✓		✓		✓	✓	✓		✓	✓
9	Epsilon	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
10	Alpha				✓					✓	✓	✓			✓	✓
11	Gamma	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
12	Zeta											✓				
13	Beta	✓	✓	✓				✓		✓		✓		✓		
14	Theta							✓	✓	✓	✓	✓	✓			
15	Delta	✓	✓					✓				✓		✓		
16	Tau	✓	✓		✓			✓		✓		✓				

7.5 THE 100 HISTORICAL RECORDS

One of the underlying assumptions, which motivated this study, was that the ultimate aim of farming families was to achieve the three main aims that are to:

- provide adequately for retirement;
- pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
- provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

Eighty of the subject businesses in the One Hundred Historical records were from hundreds of the researcher's available files. Ten were provided as a representative sample from a colleague and ten from a publication that the researcher co-authored. (Stephens and McGuckian 2004) The studies allowed some statistical analysis in relation to the achievement or not of the three main aims.

Forty-two of the 100 Historical Records businesses grew to enable succession:

- Succession failed in 8 per cent (20 per cent of the 42)
- The business failed in 4 per cent (10 per cent of the 42)
- Twenty-five per cent of the businesses are not continuing.

However, a successful farm business, with or without succession, can be viewed from many perspectives. These perspectives might be that an individual or family places a higher priority on a satisfied family over a viable and continuing business, or that funds for retirement are more important. The perspectives taken are the Satisfied Family (each individual's self-interest is satisfied), Viable Farm and Funds for Retirement.

7.5.1 SATISFIED FAMILY PERSPECTIVE

- Thirty-nine per cent of the sample farm businesses claimed that the family was satisfied with the succession arrangements. (Figure 16).

- Of these, fifty-six per cent (22 of the original 100) were able to achieve a satisfied family and a viable, continuing business and eighty-five per cent (33/100) were able to achieve a satisfied family and sufficient funds for retirement and 56 per cent (22/100) had all three. Twenty-eight per cent (11/100) were able to achieve all three, as well as equal distribution.

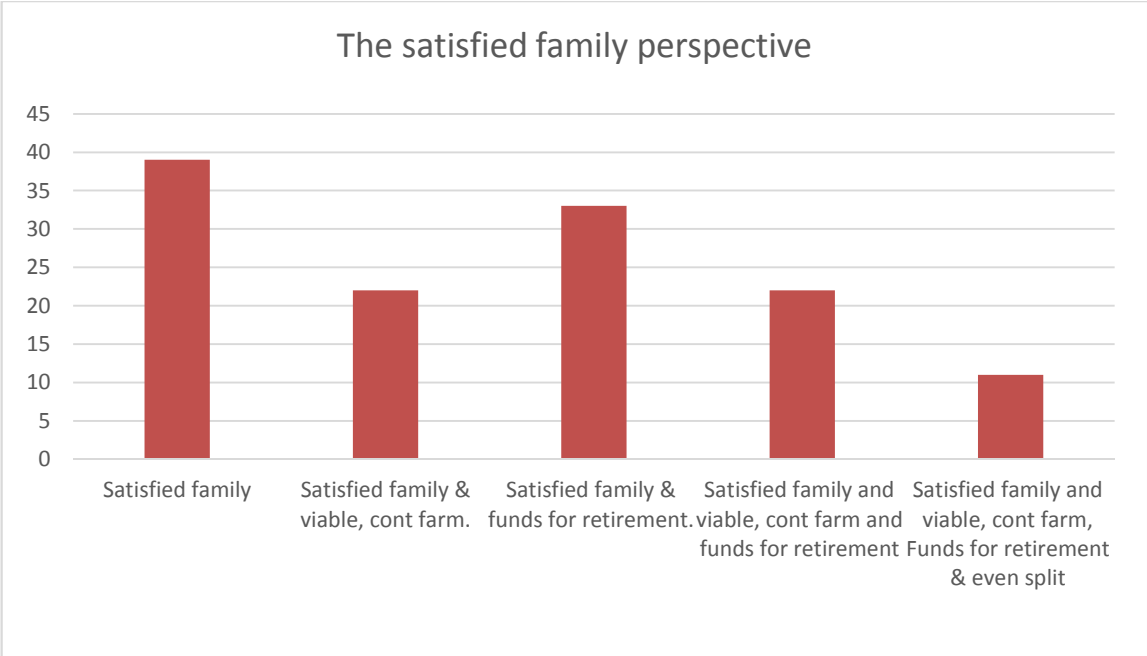


Figure 16: The Satisfied Family Perspective

7.5.2 VIABLE FARM PERSPECTIVE

- Fifty-seven per cent of the sample claimed to have a viable and continuing business (Figure 17).
- Of these, thirty-nine per cent (22 of the original 100) had a viable and continuing business and a satisfied family. Eighty-nine per cent (51/100) had a viable and continuing farm and sufficient funds for retirement. Thirty nine per cent (22/100) had all three. Nineteen per cent (11/100) were able to achieve all three, as well as equal distribution.

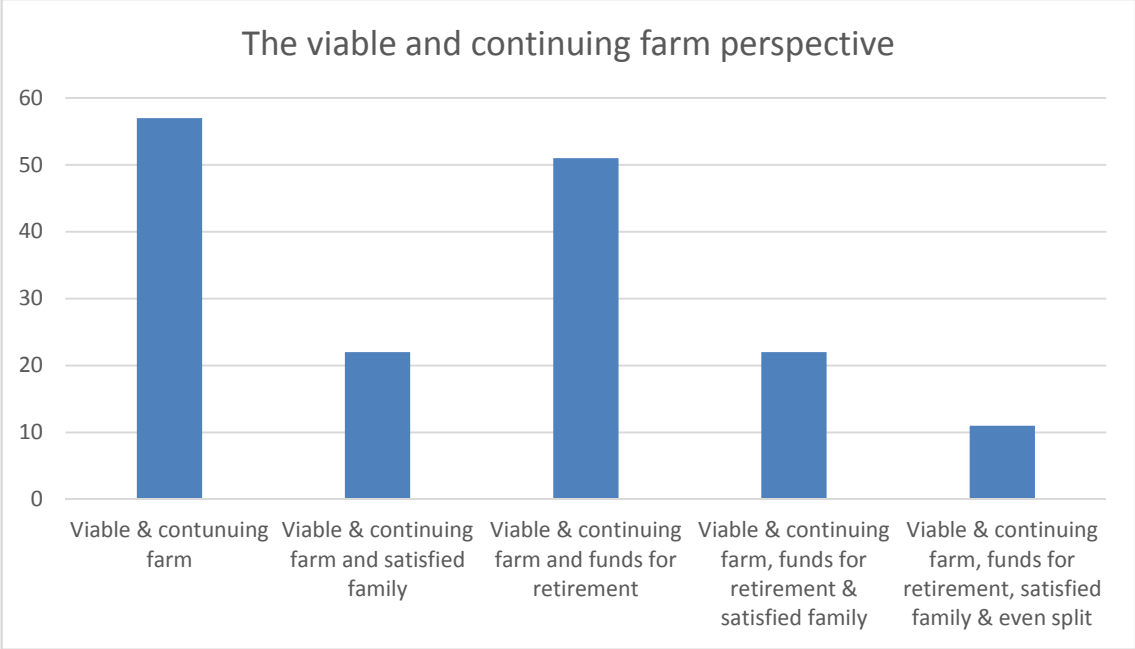


Figure 17: The Viable and Continuing Farm Perspective

7.5.3 FUNDS FOR RETIREMENT PERSPECTIVE

- Seventy-six per cent of the sample had sufficient funds for retirement (Figure 18).
- Of these, forty-three per cent (33 of the original 100) had sufficient funds for retirement and a satisfied family and sixty-seven per cent (51/100) had sufficient funds for retirement and a viable and continuing business and twenty-nine per cent (22/100) had all three. Fourteen per cent (11/100) were able to achieve all three, as well as equal distribution.

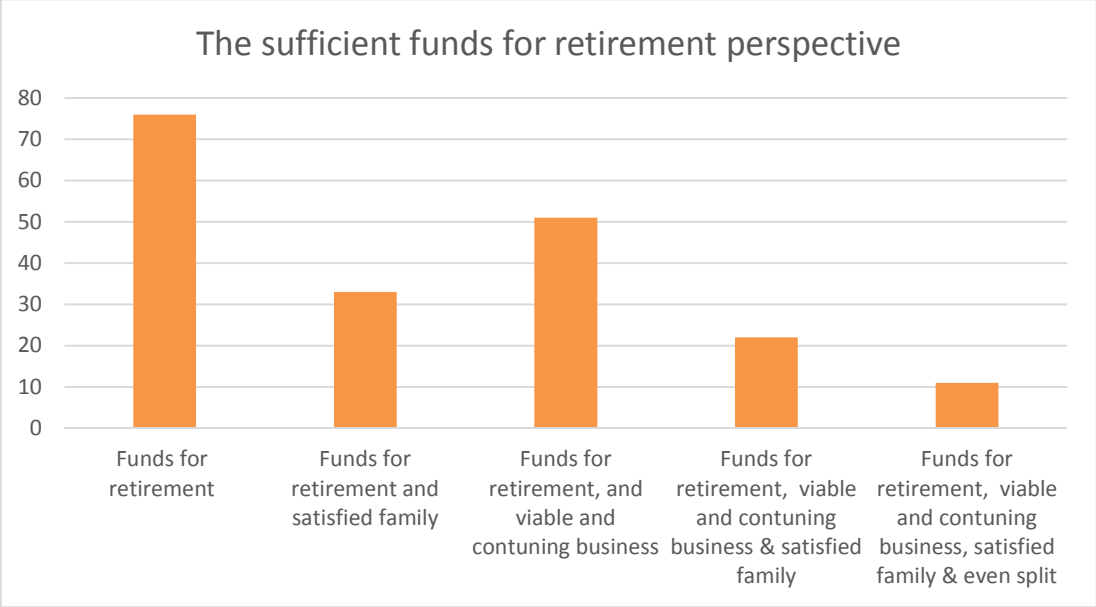


Figure 18: Sufficient Funds for Retirement Perspective

7.5.4 EQUAL DISTRIBUTION PERSPECTIVE

In addition to the three main aims, for some families, the eventual equal distribution of family assets is an important consideration. Equal distribution means that the value of assets passed on to each of the children will be approximately equal, although the timing may vary.

In the 100 businesses discussed in the historical records, twenty-two per cent were able to achieve the three main aims but only eleven per cent were able to achieve the three main aims and achieve an equal distribution as is shown in Figure 19.

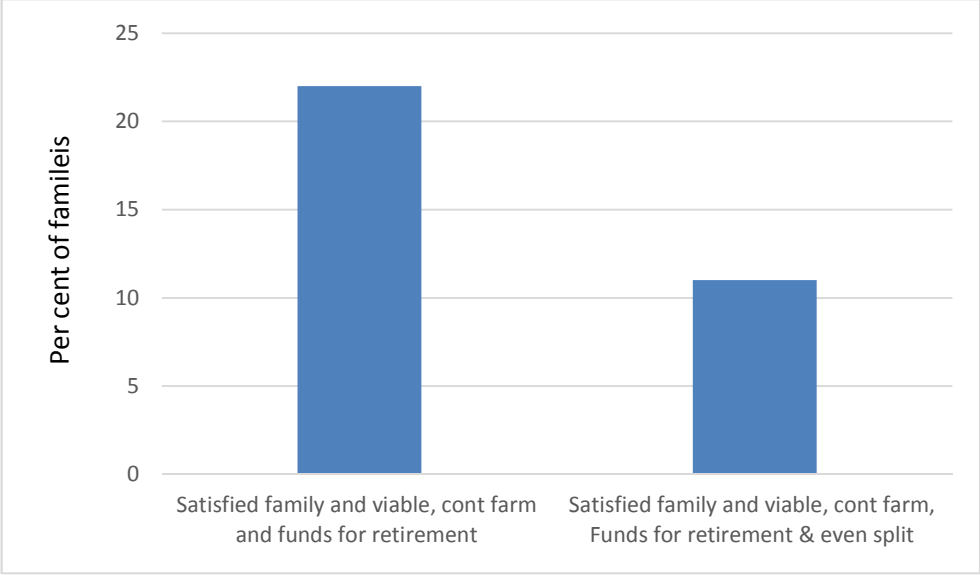


Figure 19: Three Main Aims and an Even Share of Assets

7.6 ANALYSIS OF ACTIVITIES AND ATTRIBUTES OF THE PEOPLE DESCRIBED IN THE MAJOR CASE STUDIES AND THE HISTORICAL RECORDS

An analysis of activities and attributes of the people described in the major case studies and the historical records in shown in Table 6.

Table 6: Summary Activity and Attribute Table from 100 Historical Records*

Attribute / Action	Percentage Achieved Three Main Aims	Number	Percentage Did Not Achieve	Number
Control at young age	100%	30/30	59%	51/86
Set succession growth goals	93%	28/30	23%	20/86
Higher Stocking Rates	91%	21/23	65%	53/82
Increased livestock numbers…	88%	23/26	54%	44/81
History of achieving 3 main aims	73%	22/30	24%	20/85
Siblings worked together	68%	19/28	24%	21/86
Worked for off farm income	68%	19/28	55%	46/83
Established a new business	68%	19/28	18%	15/83
Injection of family capital	64%	18/24	31%	26/85
Share farmed	48%	11/23	39%	32/82

The complete table is shown as Table 7.

Table 7: Activity and Attribute Table

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
1	√	√	√	√	√	√	√	√	√	√	√	√
2	√	√	√	√	√	only child	√	√	x		√	x
3	x	√	√	x	√	x	√	√	x	√	√	x
4	√	x	√	x	√	√	√	√	√	√	√	√
5	√	√	√	√	√	√	√	√	√	x	√	√
6	√	√	√	x	√	Not split	√	√	x	x	√	√
7	√	√	√	x	√	√	√	√	√	√	√	√
8	√	x	√	x	√	√	√	√	√	√	√	x
9	√	√	√	√	√	√	√	√	x	x	√	√
10	x	x	√	x	x	x	√	x	x	x	x	√
11	x	x	x	x	√	x	x	x	x	x	√	x
12	x	x	x	x	x	x	√	x	x	x	x	x
13	x	√	x	x	x	x	x	√	√	x	x	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
14	x	x	x	x	x	x	x	x	x	x	√	x
15	x	x	√	x	x	x	x	√	x	x	√	x
16	x	x	√	x	x	x	x	√	x	x	√	x
17	x	x	x	x	x	x	x	√	x	x	√	√
18	x	x	x	√	x	x	x	x	x	x	x	x
19	x	√	√	√	x	x	√	x	x	x	√	x
20	x	x	x	x	x	x	√	√	x	x	√	√
21	x	√	x	√	x	x	x	x	x	√	x	x
22	x	√	√	√	√	√	√	√	x	x	√	x
23	√	√	√	√	√	√	√	x	√	√	√	x
24	x	x	x	√	√	x	√	√	x	x	√	x
25	x	x	x	x	x	x	x	x	x	x	x	x
26	√	x	√	√	√	x	√	√	x	√	√	x
27	√	√	√	√	√	√	x	x	x	x	√	x
28	x	√	√	√	x	x	x	√	√	√	√	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
29	√	x	√	√	√	x	√	√	√	x	√	√
30	x	x	x	x	x	x	x	x	x	x	x	x
31	x	√	√	√	x	x	√	√	√	√	√	x
32	x	x	√	x	x	x	√	√	√	√	√	x
33	X	√	√	√	√	√	√	√	√	√	√	x
34	x	√	√	√	√	x	x	√	√	√	√	x
35	√	√	√	x	√	√	x	√	√	√	√	x
36	x	x	√	x	x	x	√	√	x	√	√	√
37	x	x	x	x	x	x	x	x	x	x	x	x
38	√	x	√	x	√	√	√	√	√	√	√	√
39	x	x	√	x	x	√	√	√	√	√	√	x
40	x	√	√	x	x	x	x	x	x	x	√	x
41	x	√	√	x	√	√	x	√	√	√	√	x
42	x	x	√	x	x	√	√	√	√	√	√	x
43	x	√	√	x	x	√	√	√	x	√	√	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
44	x	x	√	√	x	√	√	√	√	√	√	x
45	x	x	x	√	x	x	x	x	x	x	x	x
46	x	x	x	x	x	x	√	x	x	x	√	x
47	x	x	√	x	x	√	√	x	√	√	√	x
48	x	x	√	√	√	x	√	√	√	√	√	√
49	x	√	√	x	x	x	x	√	√	√	√	x
50	x	x	√	x	x	x	x	√	√	√	x	x
51	x	x	√	x	x	√	√	√	√	√	√	√
52	x	x	x	√	x	x	x	√	√	x	√	x
53	x	x	x	x	x	x	x	x	x	x	x	x
54	x	x	x	x	x	x	x	x	x	x	x	x
55	x	x	x	√	√	x	x	x	x	x	x	x
56	x	x	x	x	x	x	√	x	x	x	x	x
57	x	√	√	x	√	x	√	√	√	√	√	x
58	x	x	√	√	x	x	x	x	x	√	√	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
59	x	x	√	x	x	x	√	x	x	x	x	x
60	x	x	√	x	x	x	x	√	x	√	√	x
61	x	x	x	√	√	x	√	x	x	x	√	x
62	x	√	√	x	√	x	x	√	√	x	√	√
63	x	x	x	√	x	√	√	x	x	x	√	x
64	x	√	x	x	x	x	√	√	√	√	√	x
65	x	x	x	√	x	x	x	x	x	x	√	x
66	x	x	x	x	x	√	√	√	√	√	√	√
67	x	x	√	√	x	x	√	√	x	x	√	√
68	x	x	x	x	x	x	x	√	√	√	√	x
69	x	x	x	x	x	x	x	√	x	√	√	x
70	√	√	√	x	√	√						
71	√		√		√	√						
72	√	√	√			√						
73	x		√		√	x						

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
74	x	x	√	√	√	x						
75	√	√	√	√	√	√						
76	√	x	√	√	√	x						
77	x	x	x	x	x	x						
78	√	√	√	√	√	√						
79	√	√	√	√	√	√	√	√	√	√		
80	x	x	√	x	x	√	√	√	x	√	√	x
81	x	x	√	x	x	x	x	x	x	x	x	√
82	x	x	x	x	x	x	x	x	x	x	x	√
83	x	x	x	x	x	x	x	x	x	x	x	√
84	x	x	x	x	x	x	x	x	x	x	x	√
85	√	x	√	√	√	x	√	√	x	√	√	√
86	x	x	√	x	√	x	√	√	√	√	√	√
87	x	√	√	√	x	√	√	x	x	x	√	√
88	x	x	√	x	√	x	√	√	√	x	√	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
89	x	x	√	x	x	x	√	x	x	x	√	x
90	x	x	√	x	x	x	x	x	x	x	x	x
91	x	x	√	x	√	√	√	√	√	x	√	x
92	x	√	√	x	√	x	√	x	x	x	x	x
93	√	√	√	√	√	x	x	√	x	x	√	x
94	√	√	√	√	√	x	√	√	√	x	√	x
95	x	x	√	√	x	x	√		x	x	x	x
96	x	√	√	x	√	√	√	√	x	x	√	x
97	x	x	x	x	x	x	√	√	√	√	√	x
98	x	x	√	x	x	x	x					x
99	√	√	√	√	√	x	√	√	√	x	√	x
100	√	√	√	x	x	x	x	x	x	x	x	x
101	x	x	√	√	x	√	√	x	√	x	x	x
102	x	x	x	x	x	x	x	x	x	x	x	x
103	x	x	x	x	x	x	x	x	x	x	x	x

No	Achieved3 main aims	History of achieving 3 main aims	Control given at young age	injection of family capital	Set succession growth goals	Siblings worked together	Worked for off farm income	Increased livestock numbers, leased to run purchased land with livestock in hand	traded land	Share farmed	Higher Stocking Rates	Established new business
104	x	x	√	x	x	√	√	√	x	√	√	x
105	x	x	√	x	x	x	√	√	√	√	√	x
106	x	x	√	√	x	x	√	√	x	x	x	x
107	√	√	√	x	√	√	√	√	√	x	√	x
108	x	√	√	x	x	√	√	√	√	x	√	x
109	x	x	√	√	x	√	√	√	x	√	√	x
110	x	x	√	√	√	√	√	√	x	x	√	x
111	√	√	√	√	√	√	√	√	√	√	√	√
112	x	x	√	x	x	√	√	x	x	√	x	x
113	√	√	√	√	√	x	√	√	√	x	√	x
114	√	√	√	x	√	√	x	√	√	x	x	x
115	x	x	x	x	x	x	√	x	x	x	x	x
116	x	x	x	x	x	x	x	x	x	x	x	x

7.7 KEY BUSINESS ASPECTS FROM THE CASE STUDIES

Previous research indicates that a farm family can achieve succession only if the business is large (Stiglbauer and Weiss, 2000 and Kimhi *et al.,* 1995). This research indicates that most commonly a larger scale business was actively sought because of a determination by the family to grow the business to enable choices including succession choices. The proposition that a farm businesses succession is only likely to be successfully achieved where there is significant asset growth over each generation is supported. However, growth alone is not sufficient to ensure succession. In many of the case study businesses in which the three main aims were achieved the succession plan was not commenced until the children in the next generation were young adults. The parents had started planning for succession when or before the first child was conceived. They planned early for succession but had no defined succession plan until later.

In addition to a vision and determination to grow the business families, that achieved succession successfully have demonstrated and delivered leadership and dedication to the business and a plan. The plan has been supported by consistent hard work, a team approach, intelligent leadership and high-level business and farm management skills. The business skills have included a real understanding of risk management and the use of capital. Farm management skills, regardless of the enterprise or enterprise mix, have been used to consistently achieve a high-level performance.

In Figure 20 is shown the inter-connection of the issues discussed and further analysed in the succession analysis and planning case studies that follow.

Figure 20: Family, Environment, Questions, Three Main Aims

Four Characteristics of people and their business

I. The age of the parents and their life expectancy when they start planning for succession.

II. The readiness of individual family members to accept responsibility.

III. The preparedness of the older generation to hand over.

a) unclear employment relationship – no management or ownership succession.

b) family size – expectations, education, skill, work ethic, aptitude.

IV. Annual issues which had an impact on the business, including:

a) Enterprise Mix – Too many, too few, wrong enterprise,

b) Poor understanding of price risk management,

c) Business Structure – Debt equity ratio, scale, ownership structure.

d) Risk– technical expertise, management expertise.

Phenomena arising out of the operation of markets:

I. Market Forces
   a. Commodity price cycles for wheat, wool and beef.
   b. Interest rates, Inflation rate, capital growth
   c. Market shock for example as a result of an incursion of foot and mouth disease.

Phenomena arising from natural conditions:

II. Climate variability ad plague – Seasonal, variability, drought, flood, fire grasshoppers.

Five Financial Case Studies

Six Questions

I. What is the current financial and human resource situation of the business?

II. What are the likely timelines including life expectancy?

III. What are the aspirations re succession (or otherwise) of all members of the family?

IV. How do the aspirations align with the family resources and possible steps?

V. If continuing farming for the next generation is an aspiration of any of the family, including the parents, how
   - What financial options?
   - How feasible are they?

VI. If not continuing what financial distribution will be involved and when?

3 Aims

I. Funds for retirement
II. Viable farm.
III. Family self-interest satisfied.

7.8 THE FIVE SUCCESSION ANALYSIS AND PLANNING (SAP) CASE STUDIES AND THE REPRESENTATIVE CASE STUDY

There are five SAP Case Studies. In addition, the Representative Case Study has been developed to show the gap between the likely possible future net worth which can be achieved in a generation and the often aspirational but unrealistic future net worth goal of a family. The SAP Case Studies compare the likely real annual operating return from farming with the operating return which would be required to ensure the desired percentage distribution of family assets to the children. The financial model is built on the assumption that the accumulation of wealth is from the reinvestment of earnings as well as capital gain.

7.8.1 THE REPRESENTATIVE CASE STUDY

The Representative Case study is fictional and has been developed to show the gap between the likely possible future net worth which can be achieved in a generation and the often aspirational but unrealistic future net worth goal of a family. The Representative Case Study compares the likely real annual operating return from farming with the operating return that would be required to ensure an equal distribution of family assets to the children of the family.

The Representative Case Study considers the present-day succession issues from the perspective of Pam, the middle child in generation two of the family of the representative case study family. Pam and her husband are considering options for succession to generation three. The family members, as shown in the genogram (

Figure **21**), are:

i. Generation one: Jack and Jill
ii. Generation two: Bill, Pam (and her husband Archie) and Michael.
iii. Generation three: Pam's three children. (Cody, Daisy and Sam)

Jack and Jill managed to hand on the farm and keep Pam's siblings reasonably happy. However, Archie (Pam's husband) is still very bitter about the deal he got from his parents. He spent almost twenty years working on his family's farm only to see half given to his brother and half sold to fund his parent's retirement in the hills above Gordonvale.

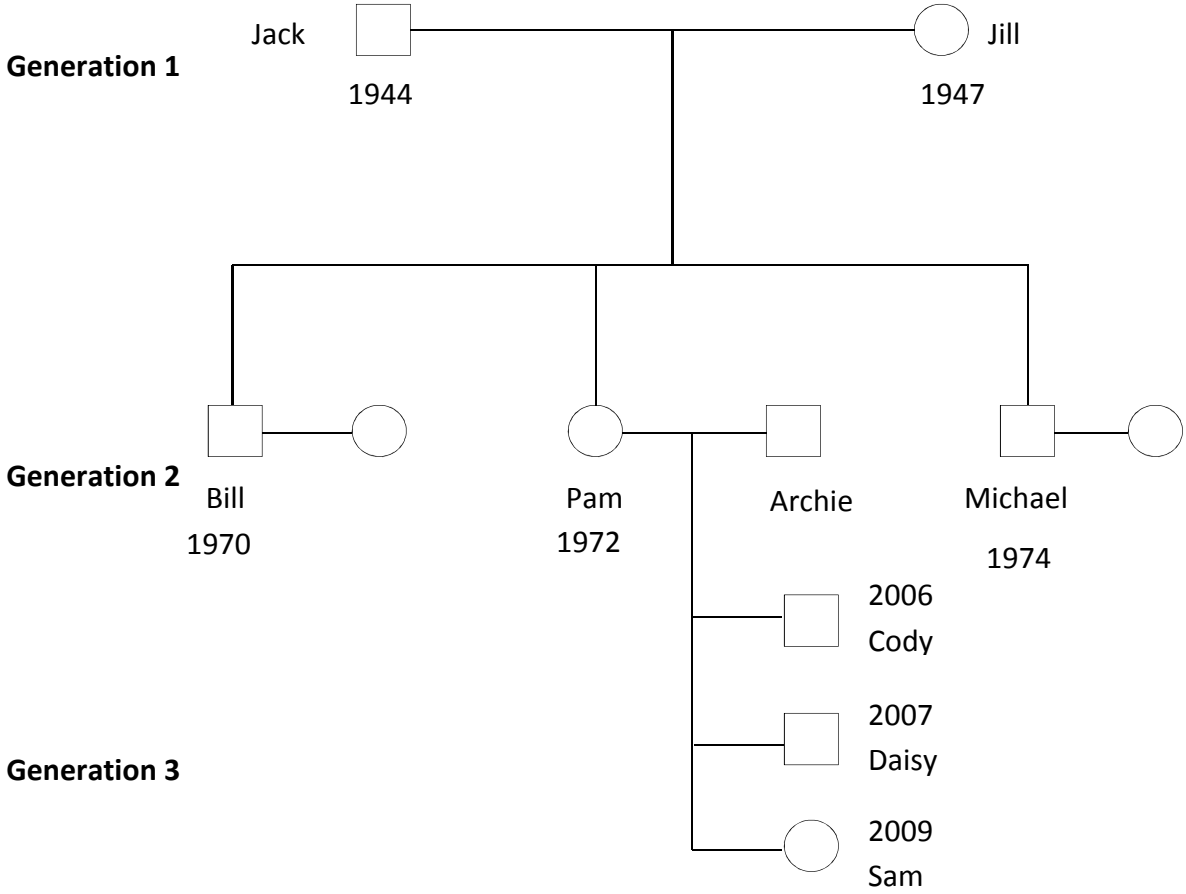


Figure 21: Genogram of the Representative Case Study Family

Pam's parents were able to hand her ownership of a ten-million-dollar cattle station that included stock ($2,700,000) and plant ($300,000) and a debt of $3,000,000. This gave Pam and Archie seventy per cent equity, a net worth $7,000,000 and land valued at $7,000,000. Pam has immediately commenced thinking about succession to the next generation. She and Archie want to achieve the three main aims of farming which are.

- provide adequately for retirement;
- pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future

productivity improvement and growth of wealth for the farming child or children; and

- provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

But in addition, they want their children to eventually receive an equal share of their assets. They want to give each of their children the same opportunity that Pam had. That means Pam will have to grow the family net worth three-fold and then add enough for she and Archie to retire.

Three scenarios are discussed:

i. Pam and Archie try to achieve the three main aims and an equal distribution of assets.
ii. Pam and Archie accept that the achievement of the three main aims and an equal distribution is highly unlikely.
iii. The operating return on capital and increase in land value achieved by Pam and Archie is at the region average and the three main aims are not achievable.

Percentage operating returns and the increase in land values for the top twenty per cent and the average businesses have been taken from the Australian Beef Report twelve-year average to the 2016 financial year.

Scenario 1: Pam and Archie try to achieve the three main aims and an equal distribution of assets.

For Pam's region, near Mareeba, the top twenty per cent of businesses averaged an operating profit from farming of 2.1 per cent and an annual return on capital from land ownership of 4.2 per cent. The district average return from farming is 0.6 per cent and the district average annual increase in land value is 2.8 per cent. If Pam and Archie are able to achieve returns in the top twenty per cent for the next thirty years, they would be able to give each of their children the start they had and retire. See Table 8.

Table 8: Future Situation 2.1% Operating Return on Capital + 4.2% Land Value

Representative		Description	Current situation current $	Future situation future $	Future situation current $
Real return on assets	4%				
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Land assets	$ 7,000,000		
Time period	30	Stock	$ 2,700,000		
% Nominal operating return	2.1%	Plant	$ 300,000		
% Real increase in land value	4.2%	Other	$ -		
		Liabilities	$ 3,000,000		
		Net assets or equity	$ 7,000,000	$62,513,822	$25,754,867
			Rounded	$ 60,000,000	$ 26,000,000

However, before becoming too confident some realism is needed. It would be imprudent to assume that the increases in nominal real land values will continue to rise at recent rates. As can be seen in Figure 22 and Figure 23 the real and nominal price of land does not always rise.

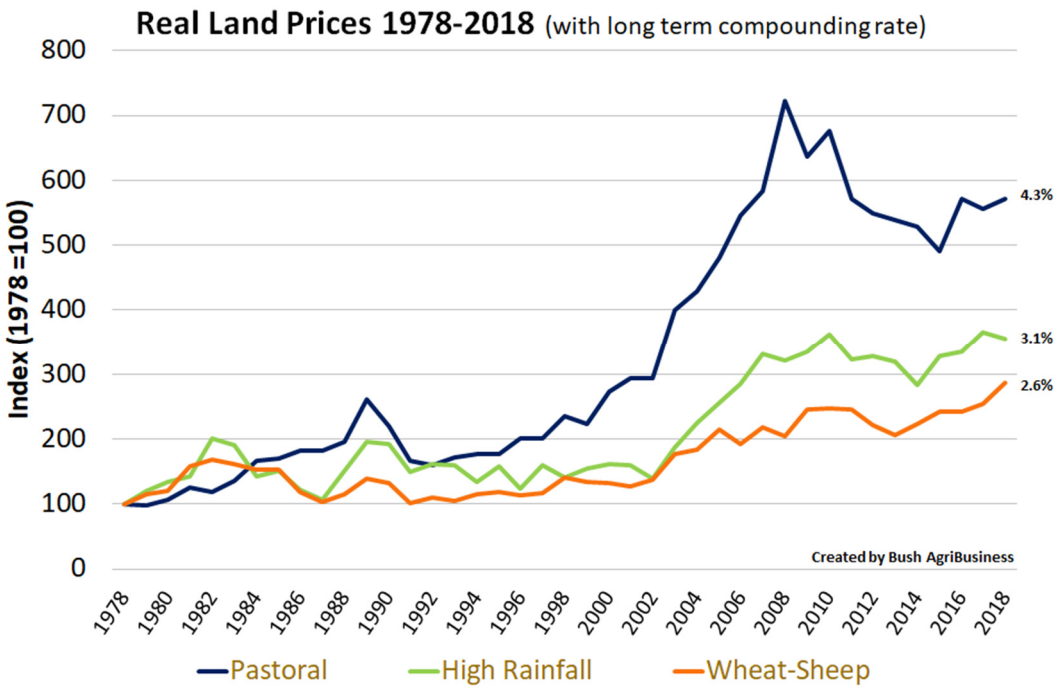


Figure 22: Real Land Prices 1978-2018

Source: McLean, I. 2019, Bush Agribusiness, pers. comm.

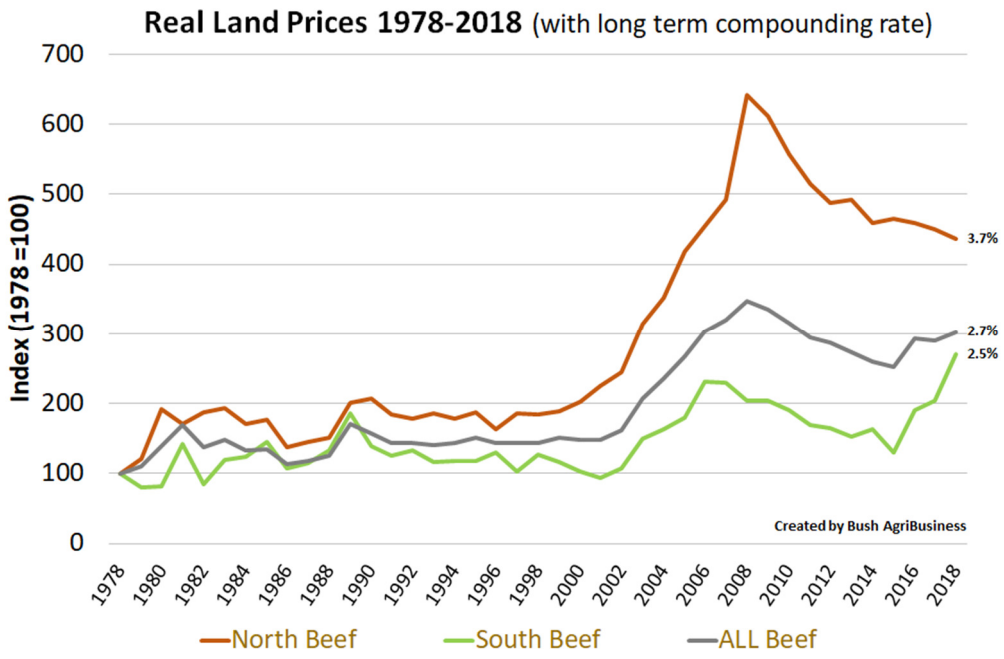


Figure 23: Real Land Prices 1978-2018 Beef Only

Source: McLean, I. 2019, Bush Agribusiness, pers. comm.

Scenario 2: Pam and Archie accept that the achievement of the three main aims and an equal distribution is highly unlikely.

The annual return on capital is based on a twelve-year average annual performance with twelve-year average land values. The operating return at current land values is likely to be below the average because the prices received have not risen at the same pace as land values. Consequently, the likely operating return will be nearer to 1.5 per cent. Further the increase in land value is likely to be nearer 3 per cent as shown in Table 9.

Table 9: Future Situation at 1.5% Operating and 3% Land Value

Representative 1.5+3		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Land assets	$ 7,000,000		
Time period	30	Stock	$ 2,700,000		
% Nominal operating return	1.5%	Plant	$ 300,000		
% Real increase in land value	3.0%	Other	$ -		
		Liabilities	$ 3,000,000		
		Net assets or equity	$ 7,000,000	$42,951,082	$17,695,277
			Rounded	$ 43,000,000	$ 18,000,000

This figure is well below the target of $21 million plus funds needed to retire but is the most likely outcome.

Scenario 3: The operating return and increase in land value achieved by Pam and Archie is at the region average. The three main aims are not achievable.

If Pam and Archie were achieving the local average profit of 0.6 per cent from farming and 0.8 per cent land value at first glance, they would achieve a little better than doubling their net worth as shown in Table 10. However, it is more likely that the business will fail because it will run out of cash.

Table 10: Future Situation 0.6 Operating +2.8 Land Value

Representative 0.6+2.8		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Land assets	$ 7,000,000		
Time period	30	Stock	$ 2,700,000		
% Nominal operating return	0.6%	Plant	$ 300,000		
% Real increase in land value	2.8%	Other	$ -		
		Liabilities	$ 3,000,000		
		Net assets or equity	$ 7,000,000	$36,975,592	$15,233,454
			Rounded	$ 37,000,000	$ 15,000,000

If the Representative family was achieving the local average return, they are likely to run out of cash because they will not be able to pay the interest on their borrowings. They would have $10 million total assets and $3 million debt. Each one per cent in interest is $30,000 per annum. The operating return at 0.6% on $10 million is $60,000 per annum. A negative operating year or an increase in interest rates would result in the business being unable to meet interest commitments and at that level of operating return there is no prospect of debt reduction.

The forecast increase in net worth at various levels of business performance is shown in Figure 24.

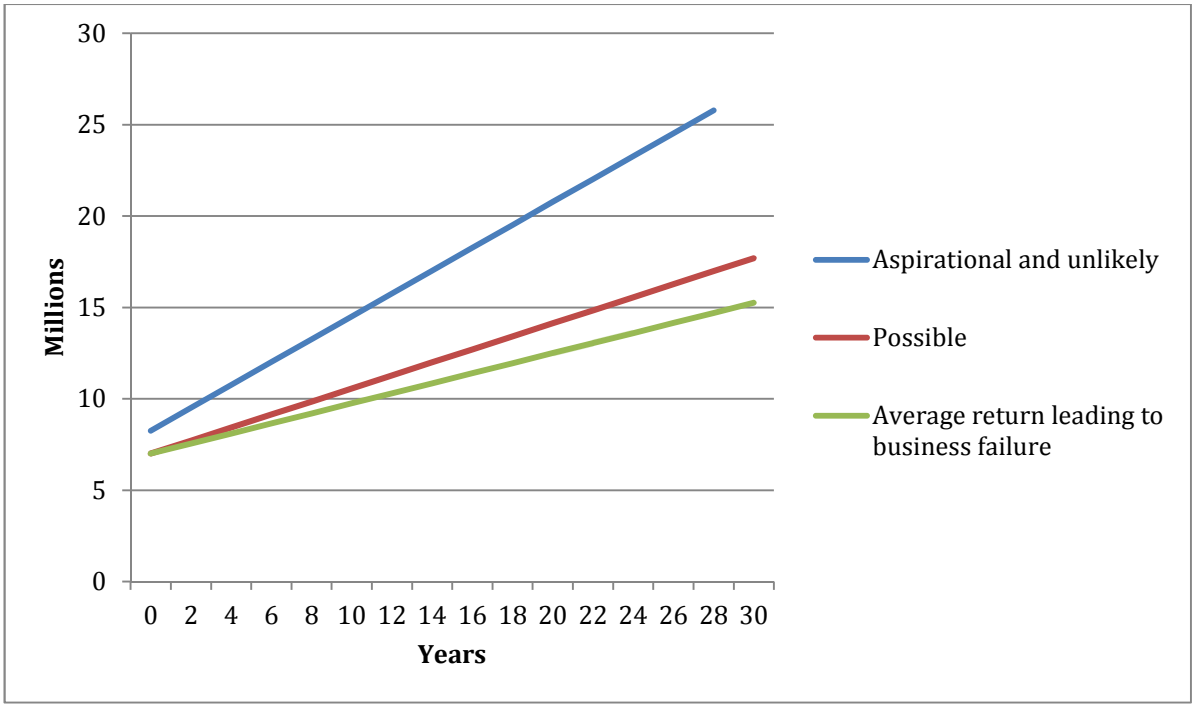


Figure 24: Increase in Net Worth – Blue (2.1+4.2), Red (1.5+3), Green (0.6+4.2)

The discussion questions for a professional assisting Pam and Archie include:

i. What will have to happen for Pam and Archie to achieve the three main aims?
ii. What could happen to disrupt the plans?
iii. What will happen if the business performs at the average for the region?
iv. Is it reasonable for Pam and Archie to allow all their children to expect to be given a viable cattle business?

7.9 FROM PRINCIPLES TO ANALYSES

For succession analyses of this type, the key measures used are, for recent years and a range of conditions, annual operating profits and net cash flows and returns to capital from farming and from owning farmland and interest rates. A 'most likely' future has to be imagined. Likely average performance of the farm business as it operates currently has to be projected into the future, the succession-planning period.

The real life year to year volatility of profits and cash flows, which is inevitable over the succession planning period, is handled in analyses of this type by assuming that the market financial system will make it possible for the farm operators to borrow and lend.

It is assumed that they will 'get through' the short-term annual fluctuations of profit and cash flows around the mean levels of performance of profit and cash flows. To make the process of imagining the future tractable, in essence mimicking the processes decision-makers currently go through implicitly, a defined annual 'average' level of returns to capital, interest rates, net cash flows and operating profits are assumed to be achieved over the relevant planning period. To be clear: over the relevant future planning period, annual profit and net cash flow will fluctuate, but an average level of annual performance of the farm business is defined. The assumption is that this level of average annual performance will be achieved, such that at the end of the planning period, the resultant values of end-capital available for family sharing, will be achieved. The further assumption is that the business, in achieving this average annual level of performance, will survive the short-term vicissitudes of commodity markets and weather, with the help of the financial system.

Sensitivity testing of the average annual levels of performance over the planning period is included. When a plausible future scenario is agreed by the interested parties succession planning can proceed. Subjective probabilities of decision-makers can be placed on the alternative plausible futures that are identified. These probabilities can be used to calculate probability-weighted expected values for the key parameters that determine the future outcomes that are of interest. For instance, it may be considered, that over a run of say ten years, in four years in ten, including the increase in land value, the farm business will earn eight per cent nominal return to capital, in four years in ten five per cent nominal return to capital will be earned and in two years in ten the nominal return to capital will be two per cent. This gives a probability weighted, or 'Expected Value' for return to capital of (8% * 0.4) + (5% * 0.4) + (2% * 0.2) = 3.2%+2%+0.4%=5.4%. The medium term expected value of return to capital that would be used in the analysis is 5.4%.

In the five SAP case study analyses that follow, all values of interest rate and returns to capital and inflation present the subjective expected values of the decision-makers. The SAP case studies have been developed from real farm cases, with modifications to emphasise a particular aspects or aspects of succession issues and dilemma commonly found. The point is to test the analytical method developed for analysing the farm

succession question and at the same time elucidating issues that can critically determine if a family farm can continue from the current generation to the next as a viable farm business, whilst also meeting the needs of retirement of the owners and satisfying the needs of all interested parties. For decision-making about succession, the interested parties are trying to answer the following questions:

i. What is the current asset, debt and equity situation, in present day dollar values?
ii. If things proceed as most likely (expected value) over the relevant planning period, what would be the situation with assets, debt and equity, in future dollar values?
iii. What growth in net worth would be required to pass on a viable farm and ensure that the non-farming children are given assets of a similar value to the farm?

The aim is to establish an agreed set of reasonable estimates about the 'family equity' that will be available for use and distribution through succession. These sums form the basis of defining alternatives and negotiation amongst all parties with an interest in the succession in question. Individuals involved will have unique situations, goals, aspirations and requirements and rates of time preference for present consumption versus future consumption, for control over their own share eventually. Each individual will apply their own set of preferences to the agreed set of numbers.

Further, to put things into the current perspective, the members of the family will want to know; what are the likely future values of assets, debt and equity equivalent to in terms of current dollar values? Converting future values to current equivalent values helps to inform and to form, views about what assets might be able to be procured in the future with the future value of equity, if the values of current assets expressed in present value terms are a reasonable guide to their future value. These future and present values of assets to be shared in succession plans are calculated below for each case study and shown in tabular form (see Table 11).

Table 11: Current and Future Assets

Case Study name Time frame

Description Values from the balance sheet	Current situation current $	Future situation future $	Future situation current $
Land assets			
Stock			
Plant			
Other			
Liabilities			
Net assets			

Time frames vary in the SAP studies, depending on the circumstances of each case. The shortest planning period is ten years and the longest is twenty-five years. Inflation and interest rates used vary in the studies depending on the time involved. A third-party advisor working with the case study families would point out that inflation and interest rates for the past decade have been relatively low compared with a longer time past and that annual real capital growth in land has been historically high.

In the absence of a market shock such as another Global Financial Crisis or an incursion of foot and mouth disease into Australia, it is reasonable, in the short to medium term, to assume a continuation of the forces that led to the current trends in interest rates, inflation and capital growth. It would be imprudent to assume that the current rates will remain as they are for a medium to long-term planning period. As the succession planner looks further into the future and uncertainty increases, rates for expected inflation, nominal interest rates and nominal increases in land value in the table below (Table 12) have been assumed for the timeframes as shown.

Table 12: Percentage Increase in Various Measures over Time

Time-years	Inflation % per annum	% Nominal market interest rates	% Nominal annual increase in land value
0-10	2.5	4.5	6
11-20	3	6.5	5
21- 30	3	8	5

A third party charged with the responsibility of assisting a family to work through the complex and often competing family and economic issues needs to understand the family dynamics as well as the current and potential state of the farm business. This is the context in which they need to consider the succession questions and the likely succession outcomes. In particular, a fundamental question is whether it is possible or likely that the business will continue in the hands of the next generation. Key questions to consider are:

i. What is the current state and potential of the of the farm business? This question involves the whole farm approach of considering all of the main human, technical, economic, financial, risk and beyond the farm gate elements that make up the farm business.
ii. What are the likely timings of key events in the future: events over which there is choice and events that are inevitable such as life expectancy?
   The Australian Institute of Health and Welfare (2018) statistics indicate that on average women would have a life expectancy of 85 and men of 81. These figures have been used in all the financial case studies.
iii. What are the aspirations for succession (or otherwise) of members of the family?
iv. How do these aspirations align with the family resources and possible futures of these resources?
v. If continuing farming for the next generation is an aspiration of any of the family, including the parents:
   a. What financial options?
   b. How feasible are they?
vi. If not continuing the farm business, what financial distribution will be involved and when?

The six questions are repeated for each of the financial case studies.

In developing plans for succession, the parents in the farming family who currently own and operate the farm need to decide whether, a viable farm is more important than an equal distribution of their assets to their children, or if an equal distribution is more important than future farm viability or, when the two choices are equally important,

how a compromise position might be reached. The surveys conducted early in this study revealed that the knowledgeable professionals working closely with farm families considered that the majority of family farm business find these choices too difficult to make and as a result, by decision or more likely default, do nothing about succession.

There are steps families can take in attempting to achieve an equal or near equal eventual distribution of the family's assets. One way is to build the family wealth by growing the farm business or by off farm investment, or by doing both of these things. Another way, when there is a prospective next generation farmer, is to encourage the next generation farmer to join the operating business as a partner. As a partner, the next generation farmer can invest in the business by taking less than a full market wage, implicitly investing the undrawn wages in building equity.

Another way is to regard the difference between market wage and drawings as a loan to the farming entity by the next generation farmer. Over a period of fifteen to twenty years, in many cases, the accumulated sum of the loan and accrued interest can buy a significant proportion of the stock and plant.

A third technique is for the older generation to make assets available to the next generation to acquire control of buy or lease on favourable terms, such as a lower than market interest or lease rate.

A fourth technique is for the parents or the next generation farmer to value the business at present market value and offer to buy out the non-farmers at a sum discounted from the present market value. The incentive for the non-farming family member to agree to this arrangement is obtaining access to their share of family resources via such a plan at an earlier stage of their own life than would occur under a later, different set of arrangements. The discount on the present value of the eventual share a non-farmer family member is likely to accept depends on their particular situation. In weighing this discount decision, the non-farmer would likely consider 'Do I have an immediate need for capital such that my preference for having access to it now is greater than receiving a larger sum later?' Related to this question are the questions: 'What use do I have for it now and what interest would I pay if I had to borrow the same sum to achieve my immediate ends? What capital growth can I

achieve on the capital if I receive it now rather than later?' and 'How will the benefits or returns I can achieve compare if I control the sum now compared with the returns from my future bequest capital remaining in the farming business?'

A fifth technique, commonly recommended by accountants, motivated by taxation and social security considerations rather than ethics, is for the older generation to gift their assets to their children, thus enabling the older generation to be eligible for an old age pension. In transferring wealth in this way, some of the financial burden of aged care is moved from the family to the taxpayer. There ethical issues in this course of action. In cases where a family proceeds to arrange to become pensionable, the issues relating to the satisfaction of self-interest of all family members remain. If the older generation hands over assets, the risk that the older generation could subsequently find themselves in impecunious circumstances is a consideration. The question of how the older generation will have sufficient income during the period between handing over assets and becoming pensionable, currently five years, needs to be considered.

The techniques used to implement succession aims vary depending on the circumstances of each family and a range of methods have been adopted in the financial case studies which follow. Further questions for advisors and family alike are considered in the following individual financial case studies.

To assist the family, the advising third party needs to know the market value of the family assets, liabilities and equity. Considering the big picture, current and potential future, a succession-planning advisor will need to estimate farm total gross margin, the operating profit and the range of likely returns to capital achieved over the range of conditions of recent years.

7.9.1 INTRODUCING THE SAP CASE STUDY FAMILIES

In the Succession Analysis and Planning (SAP) case studies (SAP 1 Eta, SAP 2 Nu, SAP 3 Omicron, SAP 4 Chi, SAP 5 Xi,) the family circumstances and the birth names of offspring, are shown as *e.g.* Eta A. B C (etc.) and genograms are amalgams drawn from real situations.

The Eta couple (SAP 1) are in their seventies and are vague about the future ownership of the farm. The farm is 802 ha and the value of all assets is $4.8 million. There is a small debt owing on the house in town where the Eta's live. When Eta B, their middle child who has been working on the farm for twenty years, pressed the issue of succession, the Eta parents handed over ownership of the stock and plant to him. Eta B now leases the land at a lower than commercial rate because at a market rate his business would not be viable. Eta C the, youngest of the three children resents the situation where his parents are effectively subsidising Eta B's business. The future ownership of the land is unclear and there is discontent in the family.

The Nu couple (SAP 2) are in their mid-forties and are determined to provide choices for their three children. The eldest, Nu A, who is sixteen years of age, is keen to study agriculture and to become a farmer. It is too early to know whether the two younger children, Nu B and Nu C, will also want to farm. The farmland is 1020 ha valued at $4.3 million and with cash, stock and plant total assets are valued at $5.9 million. The Nu's have liabilities of $800,000 and their equity is $5.1 million. The Nu parents understand that to achieve the three main aims their capital will need to grow significantly over the next fifteen to twenty years.

The Omicron couple (SAP 3) are aged fifty and forty-five and have three children. Omicron's parents handed ownership of the farm to a trust, which is jointly controlled by Omicron and his father. Omicron feels an obligation of stewardship of the land and wants to be able to hand over a viable farm business to any of his children who want to go farming. His wife wants to ensure that the eventual share of family assets between their children is as near to equal as possible. The farmland is 1150 ha, valued at $6391 ha. Total assets of land, plant and livestock are worth $9.5 million. Liabilities are $2.4 million and Equity is $7.14 million.

The Chi couple (SAP 4) are aged thirty-six and thirty-eight. They own the farm, after buying out Chi's parents and siblings on favourable terms. Those terms included a substantial family loan and a commitment to be financially responsible for Chi's parents in their retirement and old age. The Chi's have two children who are showing a keen interest in the farm. The Chi wife works in a nearby town and the father of Chi works

virtually full time on the farm. The farm is 1329 ha valued at $10,425 ha. Total assets are $16.6 million; debt is $5.81 million leaving equity at sixty-five per cent.

The Xi couple (SAP 5) are in their late sixties. They have three children and Xi B, their middle child manages a nearby farm. The Xi business has a strong balance sheet and a string of healthy performances in terms of profit and cash flow. This is partly attributable to Chi's wife contributing financially by working off farm. The family has lived from her earnings and farm profits have been invested in the farm and a cash management fund. The Xi's want to allow Xi B, now aged forty to return home and take over the management of the farm and eventually take ownership of the farm. Their eldest child, Xi A is married to a farm manager and her parents want to assist both her and her husband achieve their aim of farm ownership. The parents are uncertain about how to provide for their youngest, Xi C. The farm is 1900 ha valued at $4268 ha. Total assets of land, plant and livestock are $13 million, liabilities are $1.3 million and equity is $11.7.

The complete five-year financial records for each of the Succession Analysis and Planning case studies are available from the researcher.

7.9 2 ETA FAMILY FINANCIAL CASE STUDY SAP1

In this family the son owns the business and the parents own the land.

Jim and Marg Eta (F118), in their seventies, are vague about the future ownership of the farm. The original farm was a 640-acre soldier settler's block and Jim, the son of the original settler, married Marg the daughter of a neighbouring settler. They bought out their siblings and purchased a third block. The farm is owned by Jim and Marg. Ninety per cent of the farm is arable and 300 ha is cropped each year on a canola, wheat, barley, pasture rotation. Pasture is established under the barley.

When their middle child Rob who has been working on the farm for twenty years pressed the issue of succession, Jim and Marg handed to him ownership of the stock and plant. That happened because Rob was able to demonstrate that there was a significant difference between his $35,000 wages as the managing partner and the

salary he would have been paid as an employee. Rob and his father were paid wages of $35,000 per year each. It can be seen from the salary comparison calculations in Appendix 7 that if Rob had been paid at a commercial rate in 2018, he would have been paid a salary of around $60,000 per annum plus a package of benefits which include a house, work vehicle, electricity and phone. The gap in the salary equivalent which Rob has received has been calculated by comparing the $60,000 commercial salary today (2018) with the Federal Pastoral Award for a senior station hand (level FLH8). The gap in today's terms is expressed as a percentage of the award. The Federal Pastoral Award for a senior station hand in 2018 was $46,784. Rob's salary is one hundred and twenty-nine per cent (129%) of the award. That percentage is then applied (working backwards) for each of the years Rob was employed in a management position. In the years before he had management responsibilities, it is assumed that he should have been paid at the award rate. In Robs case the accumulated payment gap, with nominal interest at five per cent, is $777,050 (Appendix 8).

The value of stock and plant in 2018 was $797,580 and Rob was happy to assume ownership of the stock and plant in recompense for the wage shortfall.

Currently Rob leases the farm at a lower than commercial rate. This is because at a market rate his business would be struggling to be viable. Jim (Jnr) the youngest of the three children resents the situation where his parents are effectively subsidising Rob's business.

The members of the Eta family are included in the family genogram below (Figure 25).

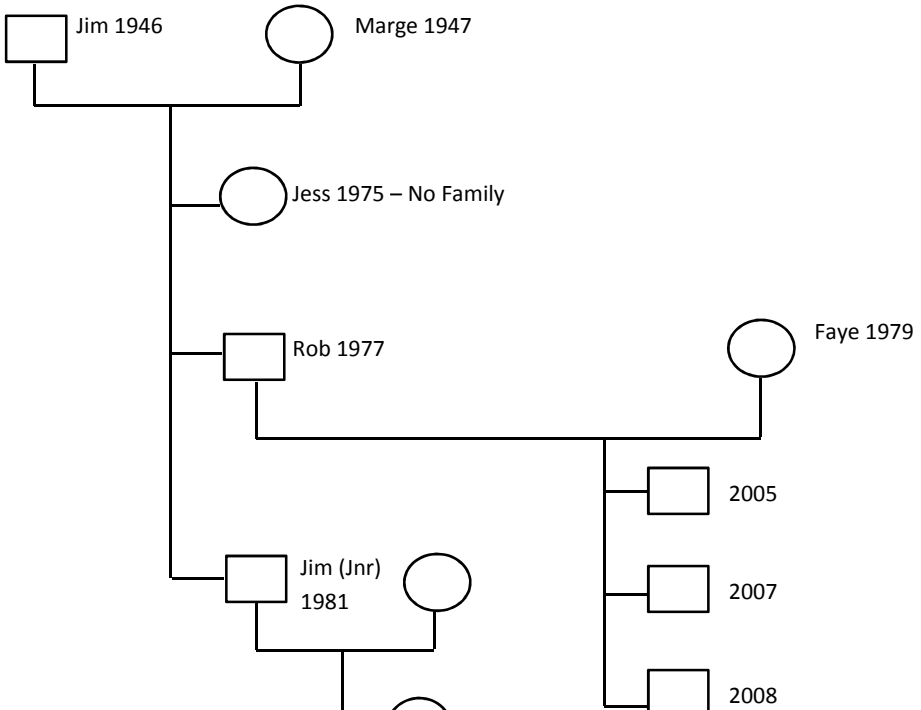


Figure 25: Eta Family Genogram

QUESTION 1: WHAT IS THE CURRENT FINANCIAL AND HUMAN RESOURCE SITUATION OF THE BUSINESS?

The Farm:

Area 802 ha **Rainfall** 550 mm **Cropping** 300 ha

Land Value/Ha $6,000 **Land Value** $4.8 Million

Liabilities $150,000 **Equity** $4.785 million

Enterprises Self Replacing Composite Sheep Flock 300 ha Crop

The Businesses:

There are two 'businesses' to be considered in this situation. Jim and Marg own the land business and the other business, the stock and plant is owned by Rob.

Marg and Jim have to pay off the $150,000 mortgage on the house in town where they live. The house is valued at $380,000.

The two tables below (Table 13 and Table 14) depict a simplified balance sheet for Jim, Marg and Rob.

In Table 13, a simplified balance sheet of Jim and Marg Eta's business is shown.

Table 13: The Eta (Jim and Marg) Simplified Balance Sheet

Assets	$	Liabilities	$
Cash		Mortgage	…150,000

Land and Infrastructure	4,812,000		
Plant and equipment			
Livestock		Total Liabilities	150,000
House in Town	…380,000	Equity	5,042,000
Total Assets	**5,192,000**		**5,192,000**

In Table 14 a simplified balance sheet of Rob Eta's business is shown.

Table 14: Rob Eta's Simplified Balance Sheet

Assets	$	Liabilities	$
Cash	44,480	Overdraft	83,448
Land and Infrastructure			
Plant and equipment	367,500	Total Liabilities	
Livestock	385,260	Equity	714,132
Total Assets	**797,580**		**797,580**

Rob has an overdraft facility that peaks at $120,000 overdrawn. The rent of $117,000 per year (paid by Rob to his parents) represents a 2.8 per cent return to capital (RTC). In addition, there has been an increase in nominal land value of 6 per cent per year for the last twenty years.

Rob runs about 3,500 Dry Sheep Equivalents (DSE's) as prime lamb ewes in a self-replacing composite flock, shearing in June, lambing late July / August, with all lambs sold before Christmas. He does all the farm work, with the exception of shearing, lamb marking and grain harvest, which are done by contract. Rob owns all the farming plant, a motor bike and a utility.

Rob is aware that he will have to come to an arrangement with his siblings about their share in their parent's assets. Rob's parents, Marg and Jim, who currently own all the

land, are imprecise about what share of the land they will leave to the two non-farming children.

The Eta family has a farm which is barely financially (Net Cash Flow) and economically (Return to Capital) viable. Jim and Marg may not be in a position to achieve the three main aims. In the long term it is Rob, not his parents, who will need to assess whether he can run his business without off-farm income and how to deal with the issues of his sibling's share of the family wealth.

QUESTION 2: WHAT ARE THE LIKELY TIMELINES FOR SUCCESSION INCLUDING LIFE EXPECTANCY?

Rob's mother, aged 73, has a life expectancy of a further twelve years (85) and his father aged 74 has a further life expectancy of seven years (81). Rob expects that Jim will leave all his assets to Marg and it will be after her death that the assets pass to his generation. Consequently, he speculates that it will be twelve years before assets will be handed on via the Wills of his parents.

QUESTION 3: WHAT ARE THE ASPIRATIONS FOR SUCCESSION, OR OTHERWISE, OF ALL MEMBERS OF THE FAMILY?

The aspirations of the Eta family are shown in

Table **15**.

Table 15: Aspirations of Individual Eta Family Members

Eta Family Member	Aspirations	Options	Likely Action
Marg	Happy family, remain in the town. Knows Rob is unsettled.	Encourage Jim to show his hand in relation to his Will	Passive
Jim	Keep the farm in the family and keep farming himself	A viable farm *and* an equal share of assets is not a realistic option, but equal or	None without prompting

		near equal is what the non-farming children want	
Jess	See parents cared for properly for their lives and eventually get a reasonable share for herself	Look after parents	None while parents are comfortable
Rob	Keep farming with a financially and economically viable business	Try and resolve the issue of the future ownership of the farm	Initiate the discussion
Jim (Jnr)	Get his share. Not worried about the future of the farm	Use every opportunity to reinforce that fair is equal and complain that his parents are subsidising Rob's business.	Agitate and snipe

QUESTION 4: HOW DO THE ASPIRATIONS ALIGN WITH THE FAMILY RESOURCES AND POSSIBLE STEPS?

Rob believes that the financial assistance he and his siblings have each been given up until the time he leased the farm is about equal, so adjustments either in his favour or those of his siblings are, in his view, unlikely. He thinks that because his parents have agreed to hand over ownership of the stock and plant that they want to see him continue to farm. However, the future distribution will not be equal if Rob is to achieve his aim of a viable farm.

QUESTION 5: IF CONTINUING FARMING FOR THE NEXT GENERATION IS AN ASPIRATION OF ANY OF THE FAMILY, INCLUDING THE PARENTS, HOW, MIGHT THIS BE ACHIEVED?

Rob would need to estimate explicitly the values his net worth and his parent's net worth are likely to be at some key times in the future. He would need to consider when succession or inheritance might occur; how the estate might be distributed; the size of the estate as it currently stands; the ability of his business to service debt; and possible interventions he could take to satisfy the self-interest of all family members and how to

deal with these matters now rather than waiting until his parents have died. He knows that without such intervention by him, it is most likely that his parents will not take any action to resolve the situation. Given this, Rob has two options:

i. Do nothing, let events take their course.
ii. Approach his parents with a proposition.

What are the Financial Options?

Rob could devise a financial proposition whereby his parents' hand over half their land (to him), thus allowing him to borrow using the land as collateral to buy out his siblings now on condition that they accept a discounted value of the land because they are obtaining their share of its worth earlier rather than later.

How Feasible are the Financial Options?

As can be seen from Table 16 given Rob's starting assets of $714,000 the twelve years planning horizon and assuming an average annual farm performance earning four per cent real return to capital Rob will not be able to find the resources to buy out his siblings. His future equity will be a little under one million of today's dollars.

Table 16: R Eta Asset Growth (12-4-0)

R Eta (Eta Son B 12-4-0)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 714,132	$1,366,892	$958,711
Time period	12	Other	$ 44,820		
% Nominal operating return	4%	Land and infrastructure	$ -		
% Real increase in land value	0%	Plant and equipment	$ 367,500		
		Livestock	$ 385,260		
		Liabilities	$ 83,448		
		Rounded		$1,400,000	$1,000,000

The combined assets of the Eta family are shown in Table 17.

Table 17: J M and R Eta Combined Asset Growth (12-3-4)

Eta Family combined (12-3-4)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 5,953,760	$14,404,672	$10,103,147
Time period	12	Other	$ 380,000		
% Nominal operating return	3%	Land and infrastructure	$ 376,500		
% Real increase in land value	4%	Plant and equipment	$ 4,812,000		
		Livestock	$ 194,820		
		Liabilities	$ 194,820		
		Rounded		$14,000,000	$10,000,000

If the Eta family had twice as much time to implement a succession plan, they may be able to achieve the three main aims. Today's value of the farm (Table 18) (twenty-four years) would be $16,000,000 and that amount would allow an almost equal distribution to all parties.

Table 18: J M and R Eta Asset Growth (24-3-4)

Eta Family combined (24-3-4)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 5,953,760	$32,020,637	$15,752,031
Time period	24	Other	$ 380,000		
% Nominal operating return	3%	Land and infrastructure	$ 376,500		
% Real increase in land value	4%	Plant and equipment	$ 4,812,000		
		Livestock	$ 194,820		
		Liabilities	$ 194,820		
		Rounded		$32,000,000	$16,000,000

QUESTION 6: IF THE FARM BUSINESS IS NOT CONTINUING, WHAT FINANCIAL DISTRIBUTION WILL BE INVOLVED AND WHEN?

This question is not applicable in the Eta family unless Rob decides not to farm in which case it is likely that on Marg's death the assets would be shared three ways.

7.10 NU FINANCIAL CASE STUDY SAP 2

Couple mid-forties, eldest of their three children aged sixteen wants to farm

Trish and Dan Nu (F119) are in their mid-forties and are determined to provide genuine, realistic choices for their three children. The eldest, Caz who is sixteen years of age, is keen to study agriculture and to become a farmer. It is too early to know whether the two younger children, William and Daisy, will also want to farm. The farm is 1,020 ha valued at $4.3 million and with cash, stock and plant total assets are valued at $5.9 million. The Nu's have liabilities of $825,000 and their net worth is $5.1 million. Dan and Trish understand that to achieve the three main aims, their capital will need to grow significantly over the next fifteen to twenty years.

Their three children enjoy living on the farm. Caz, the eldest, is interested in the farm management aspects of the business. Trish and Dan are keeping an open mind to the possibility that one or both of their other children may also be interested in becoming more involved in the business in the future. They believe that it is too early to create a succession plan but to have future choices *about* succession they want to plan *for* succession.

The members of the Nu family are included in the family genogram below (Figure 26).

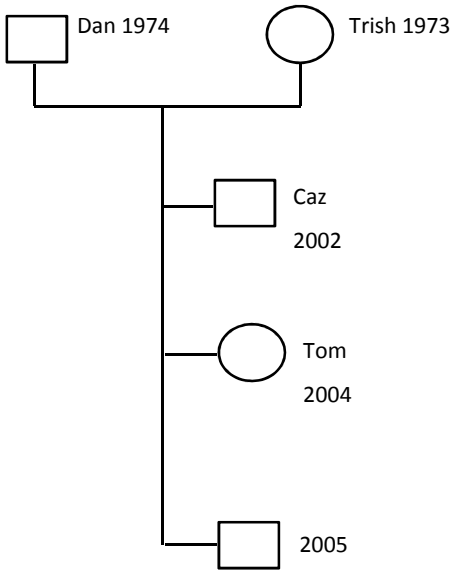


Figure 26: Nu Family Genogram

QUESTION 1: WHAT IS THE CURRENT FINANCIAL AND HUMAN RESOURCE SITUATION OF THE BUSINESS?

The Farm:

Area 1020 ha **Rainfall** 650 mm 300 arable ha

Land Value/Ha $5300 **Business Value** $5.1 Million

Liabilities $800,000 **Equity** $5.9 million

Enterprises. Self-replacing wool sheep flock.

The Nu Business:

The couple are passionate wool producers and are encouraged by high wool prices they have received in the past eighteen months. They are convinced that at current prices their wool growing business compares well with alternative enterprises.

The sheep flock consists of 4,500 adult breeding ewes with an additional 2,000 to 2,500 adult Merino wethers for wool production. The Nu family breed their own flock rams by joining selected Merino ewes by artificial insemination to high performing sires. Profiling the DNA of their sheep has indicated the wool cut potential of the flock is in the top 20% of flocks nationally.

A simplified Balance Sheet for the Nu Family business is shown in Table 19.

Table 19: Nu Family Simplified Balance Sheet

Assets	$	Liabilities	$
Cash	100,000	Overdraft	26,000

Land and Infrastructure	5,400,000	Term Loan	790,000
Plant and Equipment	131,000	Total Liabilities	816,000
Livestock	1,111,000	Equity	5,925,000
Total Assets	**6,741,000**		**6,741,000**

A twenty-year planning period is appropriate because in twenty years Dan and Trish will be in their mid-sixties and their three children will range in age from early thirties to mid-thirties. Using the standard life expectancy Dan and Trish would need to prepare for twenty years of retirement after they handed over the business in twenty years.

QUESTION 3: WHAT ARE THE ASPIRATIONS FOR SUCCESSION, OR OTHERWISE, OF ALL MEMBERS OF THE FAMILY?

The aspirations of the Nu family are shown in Table 20.

Table 20: Aspirations of Individual Nu Family Members

Nu Family member	Aspirations	Options	Likely Action
Trish	To be able to assist each of the children farm if they want to do so	Try and achieve the three main aims	Work hard to build the business to have assets available for succession and to prepare the children who wish to be involved to be equipped to take over the farm

Dan	As above	As above	As above
Caz	Wants to farm	Work on the farm as much as possible and undertake appropriate tertiary study	Study, then work away from the farm and then return to the farm
William	Too early to tell	Too early to tell	Too early to tell
Daisy	Too early to tell	Too early to tell	Too early to tell

QUESTION 4: HOW DO THE ASPIRATIONS ALIGN WITH THE FAMILY RESOURCES AND POSSIBLE STEPS?

Trish and Dan know that at least one of their children wants to farm. The future choices of the other two children are uncertain. Notwithstanding that uncertainty, Trish and Dan wish to imagine the future to test out some implications and possibilities that could exist when it's time for succession.

QUESTION 5: IF CONTINUING FARMING FOR THE NEXT GENERATION IS AN ASPIRATION OF ANY OF THE FAMILY, INCLUDING THE PARENTS, HOW MIGHT THIS BE ACHIEVED?

What are the Financial Options for the Family?

If the family business continues to earn a real return to capital from farming at the historic rate of three per cent real, excluding the land value and the land grows at a nominal three per cent per annum and two per cent real growth per annum, the family will fall short of achieving the three main aims. In today's values the family's assets will grow from approximately six million dollars to approximately eighteen million, (see Table 21). As the Nu's plan to retire, they will need to plan to fund their retirement.

Table 21: Nu Family Asset Growth (20-3-5)

Nu Family (20-3-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 5,925,395	$30,776,488	$17,040,195
Time period	20	Other	$ 100,000		
% Nominal operating return	3%	Land and infrastructure	$ 5,400,000		
% Real increase in land value	5%	Plant and equipment	$ 130,816		
		Livestock	$ 1,110,780		
		Liabilities	$ 816,201		
		Rounded		$31,000,000	$17,000,000

However, if the Nu family was able to manage the business, so that it could achieve an annual operating profit that equated to a real return of five per cent on total capital, the family net worth, by succession time, would be approximately 19 million dollars (see **Table 22**) and the three main aims would be achievable.

Table 22: Nu Family Asset Growth (20-5-5)

Nu Family (20-5-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 5,925,395	$33,856,024	$18,745,260
Time period	20	Other	$ 100,000		
% Nominal operating return	5%	Land and infrastructure	$ 5,400,000		
% Real increase in land value	5%	Plant and equipment	$ 130,816		
		Livestock	$ 1,110,780		
		Liabilities	$ 816,201		
		Rounded		$34,000,000	$19,000,000

How Feasible are these Options for the Family?

It will take a sustained level of concentration, flexibility and dedication to achieve the five per cent operating return required for twenty years but it is feasible and realistic to try.

QUESTION 6: IF THE FARM BUSINESS IS NOT CONTINUING, WHAT FINANCIAL DISTRIBUTION WILL BE INVOLVED AND WHEN?

This question is not applicable to the Nu family.

7.11 OMICRON FINANCIAL CASE STUDY SAP 3

Couple aged 50 and 45, three children, handed farm, sense of stewardship.

Rob and Jo Omicron (F120) who are aged fifty and forty-five (respectively) have three children all under the age of ten. Rob's parents handed over ownership of the farm to a trust that is jointly controlled by Rob and his father. Rob feels an obligation of stewardship and wants to be able to hand over a viable farm to any of his children who want to farm. Jo wants to ensure that the eventual sharing of family assets between her children is as near to equal as possible. The farm is 1,150 ha valued at $6,400 per ha. Total assets are $9.5 million and with liabilities valued at $2.4 million and net assets are $7.14 million.

The members of the Omricon family are shown in the family genogram in

Figure **27**.

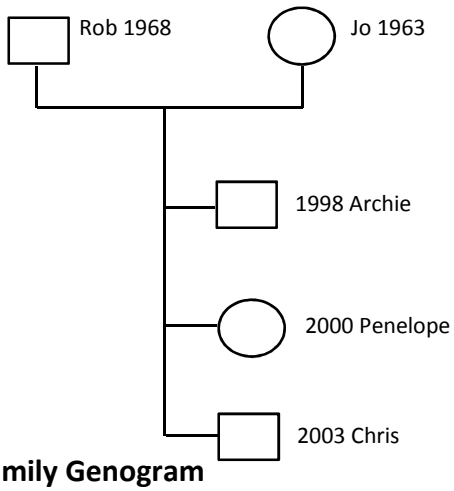


Figure 27: Omricon Family Genogram

QUESTION 1: WHAT IS THE CURRENT FINANCIAL AND HUMAN RESOURCE SITUATION OF THE BUSINESS?

The Farm:

Area 1150 ha **Rainfall** 700mm 300 arable ha

Land Value/Ha $6,400 **Business Value** $9.5 Million

Liabilities $2.4 Million **Equity** $7.1 Million

Enterprises 15000 DSE self-replacing prime lamb flock.

The Business:

Either the self-replacing composite ewes are joined to composite maternal rams or terminal rams. The majority of lambs are sold direct to Coles at 21-24 kg carcase weight. Paddocks typically require pasture renovation every six to seven years. This works well with the summer fodder-cropping program of between 100 and 150 ha each year.

Rob and Jo employ a Stockman/Farm Hand on a casual basis. In busy periods such as summer feeding, lamb marking and sowing summer fodder crops the employee is available five days a week. In most years, the annual cost of employment is around $55,000 including superannuation. Additional casual work and contract labour, excluding shearing and crutching, usually costs between $12,000 and $15,000 per annum.

To acquire the assets of the business three years ago, the finance facility was increased to $2.4M on interest only terms, with an additional overdraft facility of $200,000.

The five-year average business performance was significantly affected by poor seasonal conditions and low lamb prices in year two. Business EBIT and Gross Margin / DSE was strong in the three years following, however business cash flow was weak. Rob and Jo have been generating sufficient cash to meet their living needs. If one of the children comes home Rob and Jo will need to end the arrangement with the stockman station hand. This could be costly because the employee has been employed on a handshake arrangement, as a permanent casual, for ten years and there could be redundancy costs.

A simplified Balance Sheet for the Omricon Family is shown in Table 23.

Table 23 : Omricon Simplified Balance Sheet

Assets	**$**	**Liabilities**	**$**
Cash	262,000	Overdraft	10,000
Land and Infrastructure	7,800,000	Term Loans	2,400,000
Plant and equipment	305,500	Total Liabilities	2,410,000
Livestock	1,167,000	Equity	7,100,000
Total Assets	**9,535,000**		**9,535,000**

Rob and Jo can expect to live for a further thirty to forty years but the relevant time for succession will be dictated by the ages of Archie and Penelope who both want to farm and will be ready to accept a high level of responsibility within ten years. Consequently, a ten-year time for handing over the farm is appropriate.

QUESTION 3: WHAT ARE THE ASPIRATIONS FOR SUCCESSION, OR OTHERWISE, OF ALL MEMBERS OF THE FAMILY?

The aspirations of the Omricon family are included in Table 24 below.

Table 24: Aspirations of Individual Omricon Family Members

Omricon Family Member	Aspirations	Options	Likely Action
Rob	Hand on a viable farm and provide the equivalent start for his children that he had (about $7M	Because of the ages of the of the likely successors Rob will need to start planning for succession immediately	Build the business to create succession choices.
Jo	Treat children equally	Open communication about the task ahead.	Build the business and be patient in relation to non-business expenditure.
Archie	Wants to farm	Consider whether he wants to be in	Study and be prepared to work

		business with Penelope	away from home for a prolonged period.*
Penelope	Wants to farm	Consider whether she wants to be in business with Archie	As above *
Chris	Wants a fair go	Doesn't want to be in business with either sibling.	Unclear

* It is unlikely that the business can accommodate the employment of both children in the short term.

QUESTION 4: HOW DO THE ASPIRATIONS ALIGN WITH THE FAMILY RESOURCES AND POSSIBLE STEPS?

It would be difficult for the family to achieve the three main aims and an even division of family assets unless the time available until asset division was increased. This would be possible if Rob was prepared to continue to manage the farm or employ someone to assist with the management and delay handing over management.

QUESTION 5: IF CONTINUING FARMING FOR THE NEXT GENERATION IS AN ASPIRATION OF ANY OF THE FAMILY, INCLUDING THE PARENTS, HOW MIGHT THIS BE ACHIEVED?

With a ten year a stewardship obligation to his parents and two children who want to farm, Rob and Jo would need to start planning their own succession as soon as they take over from Rob's parents. The best option may be for both Archie and Penelope to seek a farm management career away from the home farm. This would allow more time to grow the family net worth and reduce the financial drain on the business. However, it would require that Rob remained as manager for a longer period than he might prefer.

What are the Financial Options for the Family?

Three options (Table 25,

Table 26 and

Table 27) have been modelled for the Omricon family. In Table 25 a ten-year time frame, 3 per cent annual operating return and 5 per cent land capital growth have been assumed. It the following table (

Table 26) only the annual operating return has been changed and 5 per cent annual operating return has been assumed. Neither of these scenarios would allow the family to achieve their aims. In the third Omricon Asset Growth table (

Table 27) the more achievable annual operating return of four per cent has been assumed but the period has been extended from ten to twenty years.

Table 25: Omricon Asset Growth (10-3-5)

Omricon Family (10-3-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 7,124,110	$15,123,191	$11,253,075
Time period	10	Other	$ 262,500		
% Nominal operating return	3%	Land and infrastructure	$ 7,800,000		
% Real increase in land value	5%	Plant and equipment	305500		
		Livestock	1166590		
		Liabilities	2410480		
		Rounded		$15,000,000	$11,000,000

Table 26: Omricon Asset Growth (10-5-5)

Omricon Family (10-5-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 7,124,110	$15,123,191	$11,253,075
Time period	10	Other	$ 262,500		
% Nominal operating return	5%	Land and infrastructure	$ 7,800,000		
% Real increase in land value	5%	Plant and equipment	$ 305,500		
		Livestock	$ 1,166,590		
		Liabilities	$ 2,410,480		
		Rounded		$15,000,000	$11,000,000

Table 27: Omricon Family Asset Growth (20-4-5)

Omricon Family (20-4-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 7,124,110	$42,891,980	$23,748,249
Time period	20	Other	$ 262,500		
% Nominal operating return	4%	Land and infrastructure	$ 7,800,000		
% Real increase in land value	5%	Plant and equipment	$ 305,500		
		Livestock	$ 1,166,590		
		Liabilities	$ 2,410,480		
		Rounded		$43,000,000	$24,000,000

How Feasible are these Options for the family?

The only feasible option which would allow the family to achieve the three main aims and have an equal distribution is to delay handing over the assets to the children. The option of delaying the handover allows the two children who want to farm to farm as employees using capital from outside the family and are drawing an employee's salary. This strategy has the two-fold benefit of taking financial pressure off the business and allowing a greater time until asset distribution.

QUESTION 6: IF THE FARM BUSINESS IS NOT CONTINUING, WHAT FINANCIAL DISTRIBUTION WILL BE INVOLVED AND WHEN?

The question is not applicable in this case.

7.12 CHI PASTORAL CASE STUDY SAP 4

The couple have recently taken over the farm.

Roger and Anne Chi (F121), aged thirty-six and thirty-eight respectively, own the farm after buying out Roger's parents and siblings on favourable terms. These terms include a substantial family loan and a commitment to be financially responsible for Roger's parents in their retirement and old age. Roger and Anne have two children who are showing a keen interest in the farm. Anne works in a nearby town and Rogers' father works virtually full-time on the farm.

Roger and Anne borrowed a substantial sum to finance the succession arrangements. This coincided with the sale of a significant portion of the beef herd. To fill the shortfall in DSE's Roger and Anne entered into a dairy heifer agistment contract with a corporate dairy farm. The dairy heifer enterprise has since made up between twenty and twenty-five per cent of livestock on a DSE basis. The enterprise adds some stability to the business with cash flow and some certainty of annual income.

The financial performance of this business is strong but will need to remain strong to enable Roger and Anne to meet their financial commitments. Continual monitoring of productive and financial performance will be important.

The members of the Chi family are shown in the family genogram in .

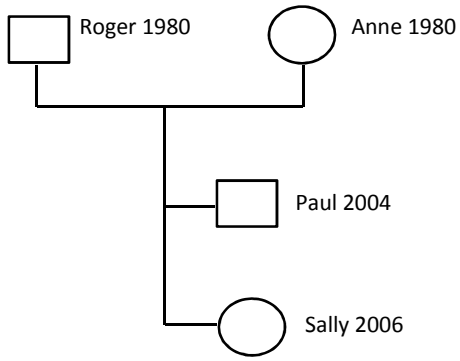


Figure 28: Chi Family Genogram

QUESTION 1: WHAT IS THE CURRENT FINANCIAL AND HUMAN RESOURCE SITUATION OF THE BUSINESS?

The Farm:

Area 1329 ha **Rainfall** 800 mm

Land Value/Ha $10,425 ha **Business Value** $16.6 Million.

Liabilities $5.81 million **Equity** $10.879

Enterprises: Beef cattle/cow calf and growing out dairy heifers.

The Business:

The beef cattle herd includes spring-calving Angus cows, their calves, replacement heifers and bulls. The business has an artificial insemination program in which the best Angus females are used to breed bulls. Bulls in excess to the herd requirement are sold to commercial producers. Calves are weaned at six to seven months and typically are

grown out to target a feedlot entry weight of 400kg. At times weaner steers are agisted to Southern NSW for backgrounding. Pastures on the property are predominately perennial ryegrass and clover based. Around thirty per cent of the property has been sown to phalaris pastures over the past ten years. In most years between 70 and 150 ha of dryland summer sorghum has been grown as a fodder crop for weaner cattle and young dairy heifers prior to renovating ryegrass pastures.

A simplified Balance Sheet for the Chi Family is shown in Table 28.

Table 28: Chi Simplified Balance Sheet

Assets	$	Liabilities	$
		Overdraft	8,000
Cash and investments	650,000	Term Loan 1	2,080,000
Land and Infrastructure	13,854,900	Family loan	3,722,000
Plant and equipment	315,500	Total Liabilities	5,810,000
Livestock	1,788,200	Equity	10,789,500
Total Assets	**16,608,500**		**16,608,500**

QUESTION 2: WHAT ARE THE LIKELY TIMELINES FOR SUCCESSION INCLUDING LIFE EXPECTANCY?

The children are aged fourteen and twelve so a twenty-five-year planning time frame would be sensible. Roger has a further life expectancy of fifty-three years and Anne of fifty-seven years.

QUESTION 3: WHAT ARE THE ASPIRATIONS FOR SUCCESSION, OR OTHERWISE, OF ALL MEMBERS OF THE FAMILY?

The aspirations of the Chi family are shown in Table 29.

Table 29: Aspirations of Individual Chi Family Members

Chi Family member	Aspirations	Options	Likely Action
Roger	Reduce farm debt and provide his children with opportunities	Concentrate on net worth growth and ensure the business financial returns are high and that he takes every opportunity	Care to avoid too much community work and will ensure time for family activity.
Anne	Treat children equally	Support Roger	Keep working off farm
Paul	Too early to be certain but is showing a keen interest in the farm	Paul needs to keep his options open	Help to the extent of his capability and availability
Sally	Too early to be certain but showing a keen	Sally needs to keep her options open	Help to the extent of her capability and availability
Rogers father	Still has financial and occupational interests (the lender of term loan 2)	Keep working while he can and enjoys it.	Keep working in reversed role for as long as he can
Rogers mother	Wants to maintain family harmony with her children (Rogers siblings)	Maintain family equilibrium.	Family support

QUESTION 4: HOW DO THE ASPIRATIONS ALIGN WITH THE FAMILY RESOURCES AND POSSIBLE STEPS?

The business has been productive and profitable but with equity at sixty-five per cent it will need to continue to be so. The next step in enabling succession will be to increase net worth through debt reduction.

QUESTION 5: IF CONTINUING FARMING FOR THE NEXT GENERATION IS AN ASPIRATION OF ANY OF THE FAMILY, INCLUDING THE PARENTS, HOW MIGHT THIS BE ACHIEVED?

Roger and Anne's children are too young to make firm decisions about the future. But because of the opportunity which has been given to them Roger and Anne want to achieve the three main aims.

What are the Financial Options for the Family?

Financially, notwithstanding their current low equity, Roger and Anne are in a sound financial position because they have only two children and have time to grow net worth. They have considered the asset growth they can achieve at two average future operating returns. In

Table **30** a two per cent operating return has been assumed and in

Table 31, the assumed operating profit is five per cent. Either growth percentage will allow them to achieve the three main aims. A third table (

Table 32) has been included in which an operating return of three per cent and a time frame of ten years has been assumed. In that scenario the family would not achieve the three main aims.

Table 30: Chi Family Asset Growth (25-2-4)

Chi Family (25-2-4)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 10,798,548	$74,763,104	$35,707,275
Time period	25	Other	$ 650,000		
% Nominal operating return	2%	Land and infrastructure	$ 13,854,859		
% Real increase in land value	4%	Plant and equipment	$ 315,493		
		Livestock	$ 1,788,200		
		Liabilities	$ 5,810,004		
		Rounded		$75,000,000	$36,000,000

Table 31 Chi Family Asset Growth (25-4-3)

Chi Family (25-4-3)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 10,798,548	$90,204,262	$43,082,058
Time period	25	Other	$ 650,000		
% Nominal operating return	5%	Land and infrastructure	$ 13,854,859		
% Real increase in land value	4%	Plant and equipment	$ 315,493		
		Livestock	$ 1,788,200		
		Liabilities	$ 5,810,004		
		Rounded		$90,000,000	$43,000,000

Table 32: Chi, Asset Growth (10-3-4)

Chi Family (10-3-4)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 10,798,548	$26,276,754	$19,552,373
Time period	10	Other	$ 650,000		
% Nominal operating return	3%	Land and infrastructure	$ 13,854,859		
% Real increase in land value	4%	Plant and equipment	$ 315,493		
		Livestock	$ 1,788,200		
		Liabilities	$ 5,810,004		
		Rounded		$26,000,000	$20,000,000

How Feasible are the Options for the family?

The options are feasible because the family has time to grow the assets and there are only two children to consider.

QUESTION 6: IF THE FARM BUSINESS IS NOT CONTINUING, WHAT FINANCIAL DISTRIBUTION WILL BE INVOLVED AND WHEN?

The question is not applicable in this case.

7.13 NU FAMILY FINANCIAL CASE STUDY SAP 5

The couple are at retirement age with one son and daughter who both want to farm, the other son wants equal distribution.

Bill and Faye Xi (F122) are both in their late sixties. They have three children and Ron, their middle child, manages a nearby farm. The Xi business performs well financially. This is partly due to Faye financially contributing to the family by working off farm. The family has lived from Faye's earnings whilst farm profits have been invested in the farm and in cash management funds. Bill and Faye want to allow Ron, now aged forty-two, to return home and take over the management and eventual ownership of the farm but their youngest Andrew, a city-based lawyer argues that anything other than an equal eventual distribution of the family assets would be unfair. The eldest child, Ruth is married to a farm manager and Bill and Faye want to assist Ruth and her husband in their aim of farm ownership.

The members of the Xii family are shown in the family genogram in Figure 29.

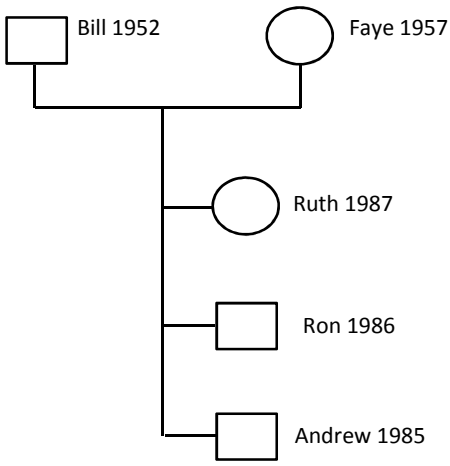


Figure 29: Xi Family Genogram

QUESTION 1: WHAT IS THE CURRENT FINANCIAL AND HUMAN RESOURCE SITUATION OF THE BUSINESS?

The Farm:

Area 1900 ha **Rainfall** 725 mm 300 arable ha

Land Value/Ha $4300 **Business Value** $13 Million

Liabilities $1.3 million **Equity** $11.7

Enterprises: 17,000 DSE. Including 550 British breed, self-replacing, spring calving cows and 4,000 spring lambing ewes, joined to wool rams and depending on the season, up to 1,200 wethers

The Business:

Shearing and crutching are done by contractors. Bill employs one full-time person and a casual worker to help with repairs and maintenance. If Ron comes home, Bill will assist his full-time employee to find another job. Under the provisions of the Fair Work Act, Bill cannot simply dismiss the full-time worker and replace him with Ron.

A simplified Balance Sheet for the Xi Family is shown in Table 33

Table 33: Xi Family Simplified Balance Sheet

Assets	$	Liabilities	$
		Overdraft	Nil
Cash and investments	273,000	Term Loans	1,250,000
Land and Infrastructure	10,010,000	Other Loans	… 95,000
Plant and equipment	….387,000	Total Liabilities	1,345,000
Livestock	.. 2,378,000	Equity	11,703,000
Total Assets	**13,048,000**		**13,048,000**

QUESTION 2: WHAT ARE THE LIKELY TIMELINES FOR SUCCESSION INCLUDING LIFE EXPECTANCY?

Bill is sixty-six and has a life expectancy of a further fifteen years while Faye, now aged sixty-one can expect to live for a further twenty-four years. A ten to fifteen-year planning time frame would be appropriate.

QUESTION 3: WHAT ARE THE ASPIRATIONS FOR SUCCESSION, OR OTHERWISE, OF ALL MEMBERS OF THE FAMILY?

The aspirations of the Xi family are included in Table 34 below.

Table 34: Aspirations of Individual Xi Family Members

Xi Family member	Aspirations	Options	Likely Action
Bill	Keep farming and aim to hand on a viable farm ,or farms, to those of his children who want to farm	Keep on building the business	Consider leasing the farm to one or more of the children
Faye	Agrees with Bill but wants to ensure that Andrew is treated well financially	Keep on working off farm. Faye enjoys professional career	Continue as is
Ruth	To be farming in her own business with her farm manager husband	Start to build a business in addition to the work her husband does.	Consider working with Ron and leasing land
Ron	To take over the family farm	Consider resigning and leasing land	Consider working with Ruth and leasing land
Andrew	To get his share of family assets	Stake his claim for his share of the family assets	Watch every move and make his belief in equal distribution known to all.

QUESTION 4: HOW DO THE ASPIRATIONS ALIGN WITH THE FAMILY RESOURCES AND POSSIBLE STEPS?

The business has sufficient equity for Bill to hand over some of the land to Ron. This would allow Ron to start to buy out his siblings. Is it possible that they will agree to a discount on the understanding that they are paid out now, rather than later after Bill & Faye die? This may allow Ruth to get the start she is looking for.

Because the family business has high equity it may be possible for the family to achieve the three main aims and a near equal distribution of assets to the children.

QUESTION 5: IF CONTINUING FARMING FOR THE NEXT GENERATION IS AN ASPIRATION OF ANY OF THE FAMILY, INCLUDING THE PARENTS, HOW MIGHT THIS BE ACHIEVED?

The possibilities are for Ron and or Ron and Ruth in partnership, with agreement from his parents to:

- Pay Andrew a commercial rate on their investment, say seven per cent, for a limited period.
- Use net present values and future values to calculate the siblings share and discuss the concept of capital growth being shared between the siblings.
- Arrange for Ron to come home and become a partner. Draw a sub-commercial operator allowance with the difference between the operator allowance and a commercial salary shown as a loan by him to the farm.
- Some combination of the above.

What are the Financial Options for the family?

Tables 35 and 36 have been included to show two different future asset situations which develop depending and varying rates of nominal operating return and capital growth return. In both tables a fifteen-year time frame has been used.

Table 35: Xi Family Asset Growth (15-4-5)

Xi Family (15-4-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 11,703,005	$42,546,670	$27,309,088
Time period	15	Other	$ 273,000		
% Nominal operating return	4%	Land and infrastructure	$ 10,010,000		
% Real increase in land value	5%	Plant and equipment	$ 387,000		
		Livestock	$ 2,378,130		
		Liabilities	$ 1,345,125		
		Rounded		$43,000,000	$27,000,000

Table 36: Xi Family Asset Growth (15-5-5)

Xi Family (15-5-5)		Description			
Real return on assets	4%		Current situation current $	Future situation future $	Future situation current $
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Total assets	$ 11,703,005	$44,609,459	$28,633,114
Time period	15	Other	$ 273,000		
% Nominal operating return	5%	Land and infrastructure	$ 10,010,000		
% Real increase in land value	5%	Plant and equipment	$ 387,000		
		Livestock	$ 2,378,130		
		Liabilities	$ 1,345,125		
		Rounded		$45,000,000	$29,000,000

How Feasible are the Options for the family?

Both options are feasible if Ron, his wife and Ruth and her husband are prepared to be in business together. If the couples are prepared to work together the three main aims will be possible.

QUESTION 6: IF THE FARM BUSINESS IS NOT CONTINUING, WHAT FINANCIAL DISTRIBUTION WILL BE INVOLVED AND WHEN?

Hopefully this question will not apply to this business.

Each of the Succession and Planning Analysis case studies adds individual perspectives which together help to create a picture of the size of the task facing farming families who want to achieve the three main aims.

Chapter 8 contains the overall findings of the study and a discussion of those findings. The research question, the research propositions which flow from it and the management implications for family farmers are discussed.

8 OVERALL FINDINGS AND DISCUSSION

8.1 INTRODUCTION

In this chapter the relevance of the findings to the three main aims of family farming, viewed through the case studies is discussed. The three main aims are defined as:

- provide adequately for retirement;
- pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
- provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

The aims of the farming family in business can be tested in relation to accepted principles of financial management and business growth. Barry and Ellinger (2012) have outlined some of the important principles in financial management in agriculture. Penrose (1995) has developed the *Theory Of The Growth Of The Firm* and Collins (2001) has set out the important characteristics which enable firms to move from good to great. However, few, if any, family farm businesses would be able to claim that they have adhered to all the principles laid down by Penrose, Collins and Barry and Ellinger. There are major contrasts documented in the case studies between continuing and non-continuing businesses which can be viewed using the perspectives of Penrose and Barry and Ellinger. Business policy issues in family owned businesses may differ in important ways from the policies of corporate firms which were the primary focus of Penrose, Collins and to some extent, Barry and Ellinger and the additional Australian texts which have been referenced.

Some of the differences between corporate and family firms were noted by Ward (Ward, J. 2012, unpublished data[11]) who argued that in family businesses more emphasis may be placed on business continuity, than near term share price which may be more important to a corporate firm. Ward argued that while the family's goal is to preserve assets, the corporate [including banks] seeks to meet investor expectations. While families want to protect downside risk the imperative is to grow the business to stay profitable and thus preserve assets. Reducing risk at the cost of profit and growth will not preserve assets.

Viewing business ownership from the perspective of shareholders in a corporate entity is helpful. In a publicly owned business Shareholder A can decide to meet the market and sell. Shareholder B can decide to buy at the price at which the shares are offered. There is no personal connection between Shareholder A and Shareholder B. Neither shareholder is concerned if the shareholder they sell to or buy from makes a profit. There is no sentiment between the shareholders and one shareholders gain may occur as a result of another shareholders loss. Contrast that attitude with siblings who have a family relationship and, in most cases, want to maintain it. In most families it matters if the gain of one family member has been at the cost of a loss suffered by another family member. In a family the satisfaction of individual self-interest may demand that the asset share is equal. Herein lays one of the dilemmas for the generation in charge of the family farm. In situations where the majority of the family resources are invested in the farm business, if the share of assets is equal, the risk is that the farm will not be viable.

8.2 THE RESEARCH QUESTION

The Research Question is. '

What abilities, attitudes, actions and strategies enable farm businesses and farm families to (i) achieve the aims of providing adequately for retirement of the current

[11] Ward, J. Professor Emeritus of Family Enterprises, Kellogg School of Management North-western University

farming generation; (ii) hand on a farm business that is an economically efficient and financially sound operation with sound prospects for increasing productivity and building further wealth; and (iii) provide fairly for all relevant family members. A secondary research objective was to develop a model to allow real time succession planning. The model was developed and used in the Succession Analysis and Planning (SAP) case studies.

8.2.1 RESEARCH PROPOSITION ONE: SURVIVAL WILL NOT HAPPEN BY CHANCE

In order to achieve the explicit aim of family farm survival through generations, farming families must achieve three second order aims. These are referred to as the three main aims of family farming (i) the owning generation having the resources they require to enable retirement, (ii) having an economically and financially viable farm for the incoming owning generation and (iii) satisfying individual self-interest of all family members - 'The three main aims'.

Without substantial off farm income, the majority of broadacre farm businesses in Australia do not have the scale to achieve the three main aims.

In those farm businesses with sufficient scale, unless there are substantial periodic gifts to the family, the main aims are unlikely to be achieved unless farm families have defined objectives that have time dimensions, rolling plans to meet these objectives and actions to implement these plans and achieve these explicit aims. A key aspect of the planning process is a strategic plan with emphasis on a SWOT analysis (Shadbolt 2008).

The ABARES reported in 2015 that there were approximately 52,000 'Broadacre' (see Table 1) farmers in Australia. The advisor survey in this study looked through an advisor 'window' at 6576 or thirteen per cent of the broadacre businesses.

Survival of the farm business through generations has to be actively sought after and, families have to do particular things, take particular steps. The findings of the research

are that the steps taken by the owners and family members farm businesses that have survived for several generations have included:

1. The controlling generation[12] started with the goal of achieving the three main aims. The end game was clear and they:
    i. Set clear goals
    ii. Provided choices for following generations
    iii. Expanded the capital base of the business (in real terms) in the same proportion as the family expands.
2. The family accepted that the plan will always be a work in progress because:
    i. People change their minds
    ii. Die unexpectedly
    iii. Unexpected circumstances, including poor seasons and markets and government policy, can create an environment which results in setbacks in the execution of the plan. One example is the Sigma family who borrowed money off shore and had to pay back double the amount borrowed. Another example is the Tau family where the designated next generation farmer changed his mind and pursued another career.
3. Ensuring that the business consistently performs at a very high level to achieve the three main aims. The Iota, Lambda and Mu families all fall into this category.
4. The business owners have started planning at a young age and have:
    i. Ensured family cohesion within and between generations, (Iota, Upsilon, Lambda Epsilon and Mu families.)
    ii. Concentrated and worked hard. (Iota, Upsilon and Lambda families)
    iii. Employed and or retained the best people available. (Iota family)

[12] In Australia, where succession to the next generation is achieved, it is unusual for more than one member of the successor generation to remain involved in the business. It is usual for siblings to develop separate businesses before handing over the business to the subsequent generation.

iv. Grown the business steadily. (Iota, Upsilon, Lambda, Mu and Epsilon families)

v. Managed family expectations (All the continuing businesses)

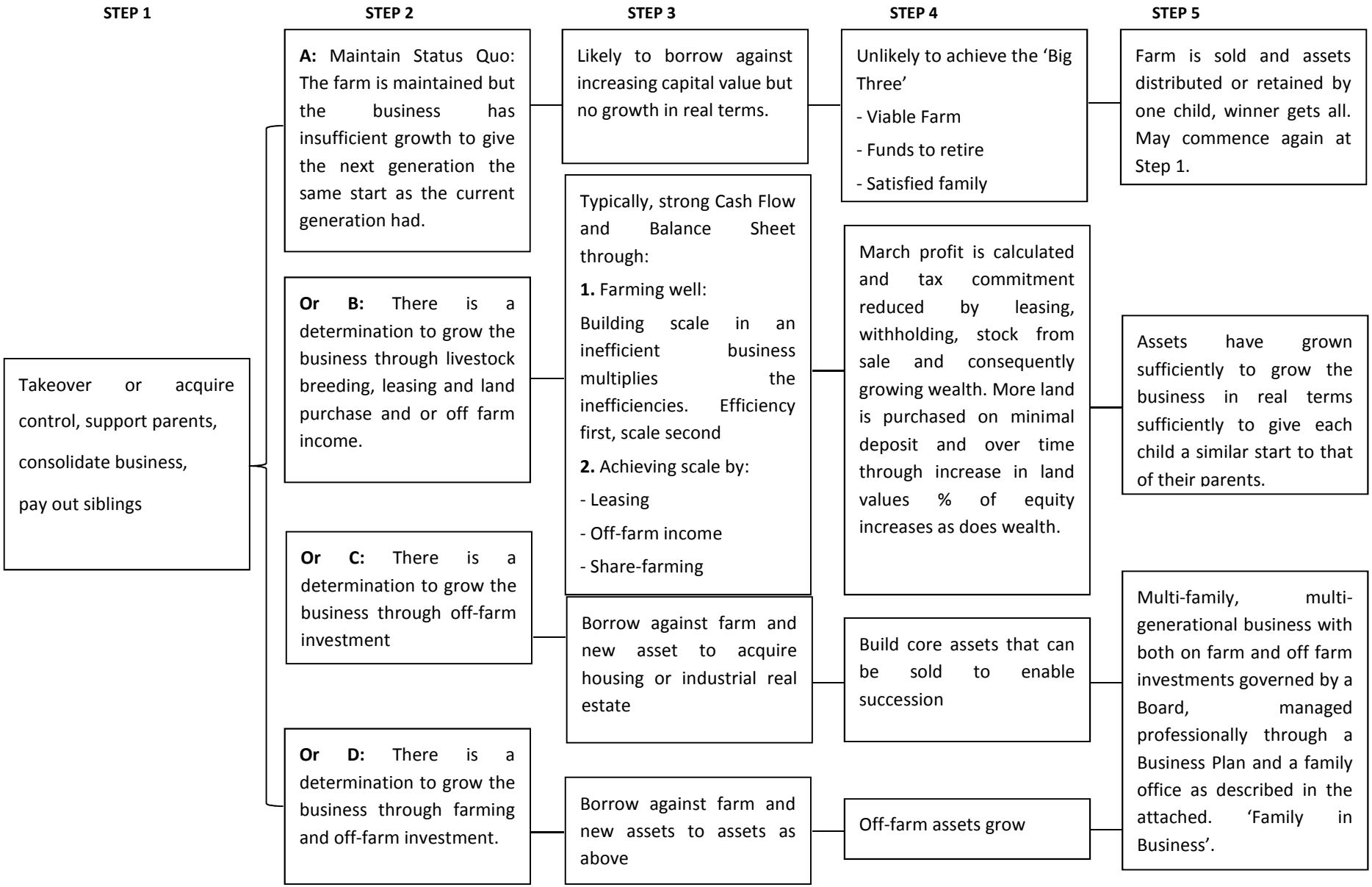
vi. Been prepared to hand over to the next generation at an early age. The Iota family bought two of their children into senior management positions, one in the early thirties and the other in the late twenty's. The Epsilon family built the business so it could be cut up and handed over when the next generation members were in their early thirties. In the Upsilon family successive generations were given management control by their early thirties.

There is a major difference between commencing a succession plan and commencing planning for succession. The former is important but in many of the cases identified in this research the formal planning had not commenced until the children were young adults. However, in the surviving, successful and continuing businesses, planning for succession, had commenced when the parents were themselves young adults. The planning included building assets so the three main aims would be possible.

The delays between planning for succession and developing and executing the succession plan, which is a process not an event, (Rosenblatt and Anderson, 1981, cited in Lobley *et al.* 2010), can be caused by many issues. Those issues include the annual production and taxation cycle, individual and family readiness for succession, changes in government policy, seasonal variation and commodity price cycles. The alternative to succession is that the farm will be sold.

In Table 37 the steps are set out which are typical in the evolution of a farm business. Pathways which lead to succession or to sale are shown as a number of steps. An alternative strategy which commences at step four is shown Table 37.

Table 37: Business Continuing/Not Continuing Schematic



An alternative strategy at step four, where only one child wants to farm, is to commence a process where that child buys out the other siblings. Where the business is profitable with a strong cash flow and equity is higher than around seventy-five per cent the following steps can be taken:

i. Value the stock and plant and arrange for the farming child to work for modest drawings and acquire the stock and plant over time.

ii. Secure agreement from the non-farmers to 'sell' to the farmer or farmers. This would be on the understanding that without some intervention the non-farmers cannot expect to receive a share of their parent's assets until both their parents have died. But by agreeing to sell, while their parents have a remaining life expectancy of fifteen to twenty-five years, it is common for non-farming siblings to accept a discounted price. Calculations, using net present and future values and an agreed discount rate, often make it possible for the farmer to 'buy out' the non-farming siblings and for the non-farmer siblings to receive the benefits of being paid out at a younger age.

iii. Hand over assets to the farming child to allow borrowing to start to pay out the non-farmer siblings.

iv. Ensure agreements are in place; to provide protection for the parents, so they are comfortable in old age, for the farmer so there is security and for the non-farmer siblings, to ensure that if the farmer farms for a short period and then sells the farm to live at the beach, that the non-farmers receive a greater share than had been previously agreed.

8.2.2 RESEARCH PROPOSITION TWO: GROWTH THEORY

Theory about the growth of any businesses, or their failure to grow, applies to farm firms, as do some practical elements of the growth of or failure to grow of non-farm firms. However, family businesses are different from corporate businesses in that the family investor is likely to be more willing to accept lower annual returns than the

corporate counterpart. For example, the Upsilon family claims an average annual return to capital over a sixty period is 4.9 per cent. The Mu family claims 14% annual return to capital over the past 20 years.

Earlier in this report (page 53) 'history' was identified as an important factor in succession. Farm businesses which remain in the hands of one family for several generations generally develop a sense of history and have useful corporate memory. In relation to history, Penrose (1995) wrote: '*One of the primary assumptions of the growth of firms is that 'history matters'; growth is essentially an evolutionary process and based on cumulative growth of collective knowledge'* (P. xiii).

However, while history and corporate memory are important Ward (Ward, J. 2012, unpublished data [13]) confirmed that there are significant differences between a shareholder firm and a family business and wrote:

> *Families have a culture centred on values, firms worry about strategic fit. While families think about adaptation firms think about constant growth. Families think in terms of incremental improvement, but firms think about innovation. The most important stakeholders in a family business are family, customers and employees, but in a firm, they are shareholders and management. The family business is seen as one in which the capital asset cannot be realised, but the firm sees the business as a disposable asset. In a family business leadership is seen as stewardship but in a firm, it is charisma.*

Further, Ward points to these essential differences in the attitude of the management team of a family firm to that of shareholder cooperation.

While family businesses think about continuity, firms think about near term share price. While the family's goal is to preserve assets, the corporate seeks to meet investor expectations.

Firms do not always grow. Unlike Penrose (1995) who is concerned only with 'Why firms grow', this research is also concerned with why they do not grow.

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[13] Ward, J. Professor Emeritus of Family Enterprises, Kellogg School of Management North-western University

While Penrose (1995) found that:

> *Many firms do not grow and for a variety of reasons: un-enterprising direction, inefficient management, insufficient capital raising ability, lack of ability to changing circumstances, poor judgement leading to frequent and costly mistakes, or simply bad luck due to circumstances beyond their control. I am not concerned with such firms, for I am only concerned with the process of growth. (p.7)*

This research is equally concerned with why businesses did not continue as it is with why they did. The major and historical records point to the important differences in skill, attitude and commitment to achieving the three main aims.

8.2.3 RESEARCH PROPOSITION THREE - NOT ALL FARMING FAMILIES WANT TO ACHIEVE THE MAIN AIMS

Not all farming families want to achieve the main aims but many of those that do want to achieve the three main aims increase farm size to enable succession. Mishra *et al.* (2010) claim that initial farm size is important and growth over time is a consequence of the goal of achieving succession goals, as well as an enabler of farm succession.

> *Farm succession literature points out that farm size impacts succession decisions. Using two measures of farm size (acres under cultivation and number of livestock), Stiglbauer and Weiss (2000) found a positive and significant relationship between farm size and succession decisions. On the other hand, using panel data from Israel, Kimhi, Kislev and Arbel (1995) the succession decision had a significant effect on farm expansion. This study uses the value of agricultural output as a measure of farm size to assess its impact on the likelihood of succession. (p. 139-140)*

This study provides evidence that rather than farm size enabling succession, the determination, on the part of the family to enable succession leads to decisions to increase farm size. Of the sixteen case study businesses eight are continuing businesses and eight are no longer viable, have changed direction or have been sold.

- Of the eight continuing businesses:
    - Seven grew to enable succession.

- Of the eight non-continuing businesses:
    - One grew but disagreement led to liquidation.

Two were large enough to achieve the three aims but did not.

8.2.4 RESEARCH PROPOSITION FOUR - FARM PERFORMANCE ENABLING GROWTH OVER TIME

Farm performance is a necessary but not a sufficient condition for intergenerational survival of farm businesses. A determination to grow the business to enable choices are necessary prerequisites of achieving the three main aims.

In some situations, the older generation discourages possible successors either deliberately or inadvertently. These situations may be because of confused or inappropriate employment relationships. But these situations can be managed if the family members are willing to look seriously at the family relationships and the conditions of employment. However, if relationships have been soured or are uncomfortable over a long period the re-establishment of comfortable relationships may not be possible. Many of the legal cases fought over farm succession involved relationships which were strained and became broken because of unclear employment relationships and or unclear expectations by both generations. For example, this occurred in the business described in Historical Records 17, 25, 28, 30, 31, 37, 40, 64, 68 and 69.

8.3 WHAT ARE THE MANAGEMENT IMPLICATIONS OF NEEDING TO PLAN FOR SUCCESSION?

This study has shown that there are four broad categories of common barriers to farm succession. Those areas are:

i. the availability of and competition for, land and water
ii. the farm business is too small

iii. issues within the family
iv. government policy, the expectations of society and the law including family law.

In each of the areas where the barriers make farm succession more difficult it is reasonable to ask what action could be taken to remove the barriers, who should be responsible for taking that action and if there are costs associated with the action who should share in bearing those costs?

In Australia, in the production of any agricultural produce, in any decade, in any geographic area, even where at first glance businesses are comparable, some farm families will keep the farm in the family and some will not. In some cases, although the farm remains within the family, family unity, familial relationships and friendships are damaged or broken because of the succession planning process and or the resulting asset share. In some cases, the farm was or will be sold because that was an agreed and accepted decision within the family. In other cases, the farm was or will be sold and the familial relationships have been damaged and or broken. In cases, within the family businesses considered in this study, where the farm has remained in the family and familial relationships have maintained there has been long term planning to enable succession although the actual succession plan may have had a short development time.

With the provisos above the most common barriers to succession are within the family and the barriers can be amalgamated into seven broad categories. They are:

i. Business size and growth stage.
ii. Attitudes to risk, debt, planning; developing talent and wealth division to children.
iii. Goals including, building wealth, growing the business to enable succession as opposed to viewing the farm as a superannuation asset to be sold
iv. Abilities of the family including technical and timeliness in farming, communication, good human resource management and, leadership.
v. Communication.
vi. Business acumen

vii. Wills

The underlying practicality is that individuals involved in a family business have to make business decisions. These decisions have implications for the family. Family decisions have implications for the business. Neither the family nor the business are separate units or entities. Some business decisions are poor decisions for the family and some family decisions are poor decisions for the business.

The task for the family farm owner manager of bringing together all the elements required to achieve succession is complex. It has to be built on:

- Solid foundations.
- Financial drivers.
- Targets.
- Planning and communication.

Successful succession requires the development of strategies for each of the issues listed in Table 38.

Table 38: Effective Family Business Planning

Effective Family Business Planning Occurs when strategies are clear and understood for each of the following								
Planning & Communication	**Planning Management** Timetable for dealing with the issues below			**Communication Management** How best to manage family communication and decisions and to avoid problems?		**Progress Checks** Annual Program to check progress and avoid stall		
Targets	**Family Roles** Current & future roles, responsibilities & independence	**Business Direction** (Farm program, practices & growth)		**Housing** Present and future needs of family on farm & off farm (includes age care)	**Family Assistance** For on and off farm children: fairness, equity as to timing & amount & type	**Farm Use and Ownership** Use, control & title of business & land between generations	**Retirements Plans** Timing, interests, location, source of income & financial security	
Financial Drivers	**Skills** Required by family members to achieve priorities	**Business Performance** Strategies to lift returns	**Capital Strategies** (For land, business & off farm investments)	**Legal Structures** (For land & business investments)	**Finance & Banking** Rates, structure & strategies	**Off Farm Investment** Strategies for ongoing Checks	Use and Eligibility got **Govt. Benefits**	**Tax** Strategies that fit overall plans
Foundations	**Work:** **Farm work** is effective, satisfying & safe for all family	**Farm Viability** Will farm profit meet present & future needs	**Personal Income** Sufficient personal income & independence	**Succession** Up to date, effective and understood	**Disability & Key Person Plans** in place	**Asset Protection,** WH&S & Insurance Management	**Legal, Records & Compliance**	

Source: Brown, R, Peppin Planners, pers. comm

8.3.1 BUSINESS SIZE AND GROWTH STAGE

The three main aims will not be achieved in the majority of broadacre farm businesses because the businesses are too small. From the figures in Table 1 it can be seen that of the 52,130 broadacre farm businesses 57 per cent had annual total cash receipts of $300,000 or less. That figure includes 48 per cent of the 52,000 broadacre farm businesses with annual total cash receipts of under $230,000. While many of the smaller businesses provide some useful occupation for the individuals and assist in maintaining the population in rural areas, without off farm income, which averages $42,530 annually (The ABARES 2018) they are not able to earn economically competitive returns to capital nor are they sufficiently financially robust to withstand the vagaries of climate and markets.. Most will be unlikely to provide for retirement of the owners without selling the farm.

Retaining skilled people, including family members is partly related to farm size. Smaller businesses offer less opportunity for decision making roles than do larger businesses. In addition, as a general rule the current next generation cohort has a higher level of formal education than previous cohorts and as a consequence is less inclined to return to a business where the main employment opportunities involve manual labour. The opportunity cost of labour is also increasing.

Broadacre agriculture requires land, in limited regions irrigation water and the Australian land and water market is mature. There are few if any farming frontiers which allow people with limited initial capital to initiate a business growth phase. Moreover, in order for farm businesses to achieve the three main aims they have to grow. Growth does not necessarily need more land or water, but eventually individual businesses will reach a point where growth without more land and water becomes uneconomic and impractical. At that point the business will require more land and or water. With the exception of limited opportunities in northern Australia, contemporary community expectations in relation to land clearing and dam building dictate that no 'new' land is, or water storage sites are, available. Consequently, for land and water to be available for businesses to grow some businesses will have to sell land and or water.

Competition for land and water rescores will ensure that not all farm businesses achieve the three main aims.

Some families manage to acquire sufficient assets and or collateral to be able to manage succession and others do not. Those differences have been explored in the case studies and in other parts of this research. Buying land to grow the business may not be necessary. Farmers do not need to own land and landowners do not have to farm.

8.3.2 ATTITUDES TO RISK, DEBT, PLANNING AND DIVISION OF WEALTH

Risk is conventionally classified into two types (Makeham and Malcolm 1993). Those classifications are:

> *Business risk and financial risk. Business risk is the risk any business faces no matter how it is financed. It comes from production and price risk, uncertainty and variability. Business risk refers to variable yields of crops, reproduction rates, outbreaks of disease, climate variability, unexpected changes in markets and prices, changes in government policies and laws, fluctuations in inflation and interest rates.*
>
> *Financial risk refers to the gearing ratio of the firm and the operation of the principal of increasing risk.* (p. 274)

In addition to the business and financial risks, human and institutional risks are also factors. There are risks to the business if key personnel leave, are unable to contribute and or die. Marital and relationship breakdown are further examples of human risk. Some of the risks are insurable some are not. Workers compensation insurance is a legal requirement and businesses must hold appropriate policies. The cost of some insurance, for example multi-peril insurance, is seen by most farmers in Australia to be too high. It is better to take the risk than pay the insurance premium. In some businesses everything insurable is insured while in others the decision to insure is selective. Some families elect to have medical insurance and or death policies and others do not.

All measures to reduce risk have a cost. Insurance policies have premiums which are set in relation to the risk. Delaying the sowing of a crop so as to avoid possible frosting at flowering may mean a reduction in yield because the sowing occurred later than the optimum time. Delaying joining in a sheep flock to avoid bad weather at lambing may result in the inability to finish late lambs and a consequent reduction in sale price.

To achieve the three main aims a farming family over time will need to have more profits than losses. Without the manager taking risks the business is unlikely to grow so risks must be taken. However, the success of the business will depend on amount of risk taken, the actions to mitigate that risk and whether, over time the family business sustained wins which were greater than the losses.

8.3.3 PLANNING

Many farmers can demonstrate that they plan well. The crop is sown and harvested at the optimum time, livestock joining is within a planned time period. The layout of the farm with laneways, a reticulated water system, a mixture of land uses and enterprises are evidence of good planning. Ensuring that wages, taxes and accounts are paid on time is further evidence of good planning.

However, while it can be shown that day to day and physical development planning is at least adequate few farming businesses have a well-documented strategic plan. A well-documented strategic plan requires the business to manage strategically. Shadbolt (2008) wrote:

> *Strategic management has been described as being different from other levels of management in several ways. It is non–routine, non-programmable, unique and creative, more ambiguous, uncertain and complex than 'operational' management and yet it has the greatest impact on the future of the business.* (p. 1)

Shadbolt (2008) has described tools and techniques available for strategic management including the proper, rather than superficial, use of the SWOT analysis and the Balanced Score Card. The businesses which have achieved the three main aims have been

strategic in their management and have included planning for succession as part of that strategy.

8.3.4 DIVISION OF WEALTH

In most families to understand the individual attitudes towards wealth division it is first necessary to understand the attitudes towards and understanding of the terms equal fair and equitable. In Table 39 the Macquarie Dictionary definitions of the three terms is shown.

Table 39: Definitions of Equal, Fair and Equitable.

Equal /'ikwel/, *adj., n., v.,* **equalled, equalling**. – adj. **1.** as great as another (fol. by *to* or *with*): *the velocity of sound is not equal to that of light*. **2**. Like or alike in quantity, degree, value etc.; of the same rank, ability, merit, etc. **3 .** Evenly proportioned or balanced: *an equal mixture, an equal contest*.	**Fair** /fɛə/ *adj.* **1.** free from bias, dishonesty, or injustice: *a fair decision or judge*. **2.** that is legitimately sought, pursued, done, given etc.; proper under the rules: *fair game, stoke, hit etc*. **3.** moderately good, large or satisfactory; not undesirable, but not excellent: *a fair income, appearance, reputation.*	**Equitable** /ˈɛkwətəbəl/, *adj.* **1.** characterised by equity or fairness; just and right; fair; reasonable. **2.** *Law*. pertaining to or valid in equity, as distinguished from the common law.

Source: Delbridge *et al.* 1991

The three terms, equal, fair and equitable are used frequently in discussions relating to farm succession in Australia. The term equal can sometimes have an undisputed meaning, as described above, or for example fifty divided by ten gives five equal parts. On other occasions, the concept of equality may be related to sentimental or artistic values. These values may vary depending on the individual.

The terms fair and equitable have no solid mathematical meaning. In any family the concepts of fair and equitable and the values attributed to each may vary over time and at any point in time may be ascribed different values by individual family members. The definition of fair as being free from bias, dishonesty or injustice, leaves a lot of room for interpretation and when the stakes are high that interpretation will almost certainly be questioned.

Assume that a person has been given an asset by a previous generation with the expectation that the recipient will act as steward of that asset. In such cases it may be seen fair and equitable for the recipient, in time, to pass the asset to one member of the next generation with the same expectation of continued stewardship. The distribution of assets may not have been equal, but it may be seen by that family as fair and equitable. If on the other hand the first generation creates the asset and passes it on to one member of the next generation at the expense of some of the siblings in the second generation, that may be seen to be unfair and inequitable.

Taking that discussion further, what if a member of the second or a subsequent generation has contributed to the building, development, or maintaining of farm assets and has enabled his or her parents to remain living on the farm, has worked for less than commercial rates and or, has forsaken other employment or career opportunities? What, if anything, does the family owe that individual? Would an equal distribution of the family assets be equitable if the on-farm individual had not first been adequately compensated?

In another situation, where parents have created the educational opportunities each of their children wanted and have met the expense, where the cost has been unequal have the parents treated the children equally? Was the treatment equal, equitable, neither or both?

Many parents say equal and equitable are not the same, sometimes their children accept the parental judgement, sometimes not. Similar situations can be found around the use of the word fair.

Much of this discussion has been written in an abstract situation. The tests on the different meanings and the acceptance, or otherwise, that parents and their children ascribe to these terms occur when parents, who have most of their assets invested in the family farm, want to retire, pass on a viable farm to the farming child and deal with the other children fairly. Or is it equitably? Or is it equal? If it is equal, how do they create the net worth?

8.3.5 GOALS

Barriers to achieving the three main aims occur when; the older generation lacks the vision, drive, imagination or belief that succession is possible. A further common barrier occurs when the income generated by the farm business, combined with other sources of income which are typically the farmer and or the spouse being in paid employment, are insufficient to build net worth to hand on a farm and satisfy the self-interest of the non-farming children.

If there are members of the family who can 'get the ear' of the older generation and capture their imagination it is sometimes possible to get the reluctant members of the older generation to engage in succession conversations. Those conversations may involve innovative ways of enabling the next generation to start to buy into the farm business and buy out siblings. Equally the conversations may tackle another of the big hurdles where the older generation derives the reason for living from being a farmer. In such cases it can become impossible for the individual to separate what they do from who they are. This inability was particularly evident in the Alpha, Zeta and Delta families and in the businesses described in Historical Records 17, 28,41,43 60 and 68.

Stephens and McGuckian (2004) described the situation faced by many farmers as follows:

> *The big difference between farmers and other workers… is that as well as the place of work, the farm is also the home and it may also be the individual's heritage. Places on the farm evoke special memories of people and events. These special places can provide great comfort and for many people, the idea of leaving them is too hard to contemplate.* (p. 3)

The goal of the older generation to sell the farm to fund retirement may be a legitimate choice. An exception may be where the farmer has encouraged the next generation to work for sub-commercial conditions on the understanding that one day the farm, or part of it, will be handed over. Another is where the farm has been given with an expectation from previous generations of 'stewardship' rather than 'ownership'. The Alpha Family falls into this category.

8.3.6 ABILITIES

As with people in any business sector in the farmer population generally and in individual farming families there can be a wide range of skill, aptitude, work ethic, ability and attitude, which if seen as a complete set of attributes can be described as abilities. In some families this set of abilities of the individuals of individual family members is combined to enable the achievement of the three main aims. Leadership is one important ingredient in bringing the abilities of the family members together to enable the three main aims to be achieved. Strong leadership was particularly evident in the Iota, Lambda, Mu and Epsilon families.

8.3.7 COMMUNICATION

Previous research has shown that:

i. the ability to communicate freely on important issues,
ii. managing and understanding expectations,
iii. identifying the wants and needs of each family member in each generation,
iv. building maintaining harmonious family relationships,
v. the level of business acumen and financial literacy within the family,

are essential pillars to enable succession. Barriers occur when any of those pillars are missing.

The inability of any or all members within a farming family to communicate freely on important issues is often cited as the major barrier to smooth succession. Observations

in this study lead to the conclusion that in many cases the block is unwillingness rather than the inability to communicate. If the business owner or owners want to achieve the three main aims of farming but believe that it is not possible, they have to decide which of the three aims will be set aside. Parents may choose to remain silent where one or both has resolved that the farm should stay in the family and that as a result of that decision the eventual distribution of family assets will be far from equal. In such cases choosing to remain silent may be because of an unwillingness to confront the issues rather than an inability to communicate. Although the end result is the same the need is for members of farming families, to have the courage and confidence to confront the issues rather than simply improving communication. The Kappa, Iota and Lambda families paid great attention to communication within the family while the Beta, Delta and Alpha families paid less attention to the issue of communication.

In some families the older and younger generations may be able to communicate freely but choose not to on the issue of succession because it will force some hard and unpalatable decisions. The issue is not that they cannot communicate, rather that they choose not to.

Managing expectations and identifying the wants and needs of each family member are interlinked. Expectations can be difficult to manage and wants and needs can be difficult to identify. Building and maintaining family relationships is time consuming. If the family is limited to two parents and two children, there are six individual relationship and several multi person relationships to be managed.

8.3.8 BUSINESS ACUMEN AND FINANCIAL LITERACY (OR THE LACK THEREOF)

Where there is a full understanding within the entire family of the financial position of the business and its capacity to borrow and meet interest and re-payment obligations there can be a greater understanding of the realistic succession options. Where this understanding is lacking it is easy for the future farmer to underestimate the income needed to take on more debt and of the non-farmers to overestimate the debt capability and earning capacity of the business. This understanding was described by

Huffman (1977) as 'allocative efficiency' and further explored by Buggie (1977) as 'Allocative ability' Both terms refer to the ability, or lack of it, of decision makers in a business to be in possession of and be able to analyse information so as to prioritise resource allocation and to make well informed decisions. In short to turn information into the knowledge to confidently make management decisions. Without allocative ability the future farmer and the non-farmers can both be unrealistic in their estimation of and response to the situation. One of the important tasks for any professional assisting a family with farm succession is to ensure that the entire family has a realistic appreciation of the financial position and capacity of the business. The Iota, Upsilon Lambda Kappa and Epsilon families ensured complete financial transparency.

8.3.9 UNWILLINGNESS TO MANAGE THE SUCCESSION PROCESS

Family farm succession is a process, not an event which has four distinct stages (Hutson (1987). The process requires preparation of the business and the people. The next generation has to be trained so its members are prepared and equipped to assume responsibility and exercise authority and the older generation needs to relinquish control. The process is often gradual so it is important to have review and pause or acceleration points were the process can be slowed or hastened depending on the circumstances.

When the process is too slow there is a danger that individuals will disengage and where it is too fast it is possible that there will be expectations developed or commitments made which are steps too far and too soon. The former was apparent in Case Study 3 (Rho) and the latter in Case Study 16 (Tau) and Historical Record 88. A succession plan is no different from any other plan. Circumstances change with the progress of time and the changing circumstances have to be managed. A further example of mismanaged changing circumstances can be found in the contrast of circumstances described in Historical Records 88 and 17. Historical Record 88 describes a situation where the three main aims have been achieved whereas Historical Record 17 describes a situation where the three main aims have not been achieved, there are broken relationships and the business is not viable. Historical Records 88 and 17 describe the

same business but ten years apart. The succession plans described in Historical Record 88 failed later because of a lack of succession plan management. Historical Record 17 describes the situation of the same business as Historical Record 88 but 15 years later. Without constant management the plan is likely to fail. The lack of management of the plan is a barrier to succession. Both the advisor and the farmer surveys in this study indicated that the vast majority of farm businesses do not have a 'live' well documented succession plan.

8.3.10 WILLS

The first opportunity family members have in relation to wills is to try and influence the testator, the person making a Will. That influence may be used to try and ensure that an individual beneficiary or group of beneficiaries receives a particular object, a greater share or a particular farm. Once a Will has been signed, there can be no alteration, either by crossing out or writing in new clauses. Alterations such as these will have no effect. The best way to amend or alter a Will is in a separate document called a codicil. For a codicil to be valid it must also meet the formal requirements of making a Will. In many ways it may be easier to make an entirely new Will.

With this in mind an individual beneficiary or group of beneficiaries who are aware of an unfavourable Will may seek to have the Will changed or a new Will written. Wills are automatically revoked on the day of marriage or divorce. In the absence of a new Will a person dies intestate. There are limited grounds for challenging a Will.

As a general rule the greater the percentage of the family's wealth which is passed on via the Will the greater the chances of a challenge to that Will. When individual cases are examined at best there has been a miss-understanding, at worst there was a deliberate and successful strategy on the part of a sibling to persuade his father to give him land which was willed to other siblings.

8.3.11 FARM MANAGEMENT TECHNIQUES

There are many techniques which can assist a family to make decisions relating to fairness and equality.

Techniques which were used in many of the families in this study is for a succession planner to:

i. Work in a team with an accountant and lawyer and engage with the generation which 'holds the keys' to establish the broad direction in relation to succession. This applied in the majority of the case study families.
ii. Conduct individual and confidential interviews which identify the needs, wants, expectations and aspirations of each family member in each generation. This applied in the majority of the case study families.

iii. Gain approval from the individuals to condense the information so a complete family picture of wants, needs, aspirations and expectations can be developed.
    a. The techniques described in I, II and III above were used, for example, the Iota, Upsilon, Kappa, Epsilon, Alpha and Gamma cases
iv. Use the information gained to develop a draft plan which may include:
    a. The next generation farmer entering a partnership, working for limited drawings and receiving a predetermined share of assets after a predetermined period. The assets can be accrued annually through a loan system. This technique was used in the businesses described in Historical Records 21,23, 41, 44, and 62
    b. The parents handing over assets, with appropriate safeguards, to a farming family member or members of the next generation to allow them to start to buy out their non-farming siblings using net present value and future value calculations. This technique was used in the Upsilon family and in the businesses described in Historical Records 21, 22, 23 and 57.
    c. Mechanisms which allow the parents to gradually hand over responsibility and authority. This technique was used in all of the

businesses in this study in which the three main aims have been achieved.

d. Road testing the agreement by asking what happens if:
   i. The next generation farmer does not want to continue farming as happened in the Tau business.
   ii. A key family member dies unexpectedly as happened in the families described in Historical Records 32 and 54.
   iii. A parent remarries?
e. Developing a draft Deed of Family Arrangement which acts as a roadmap for the family as happened in the Upsilon ,Sigma, Alpha and Zeta, families and the families described in Historical Records,18, 26,31,34,37,42,43,44,93 and 95 .

When the agreement has been ratified by all members of the family the process of testing is used again. When the testing is complete it is vital to ensure that all the business structures, ownership structures and all agreements, including but not limited to, Wills, Powers Of Attorney, Trust Deeds, leases, shareholder 'Buy Sell' agreements, partnership agreements and employment contracts are aligned to and consistent with the aims of the Deed of Family Arrangement.

In most families, using the approach outlined it is usual to come to an arrangement which is much closer to equal than if the farm is passed on via a Will. It is up to the individuals to decide if the result is fair, equal and equitable. The individual goals of family members and the goals of the family as a whole are important. For example, if the older generation sees the farm '*as my superannuation'* it will be sold and there will be no farm succession. It is possible in that situation that there will be succession that does not involve the farm.

When within the younger generation no individual wants to take on the management and eventual ownership of the farm there is no successor. This may be because members of the 'successor generation':

i. Have other fields of endeavour in mind. It is not uncommon to identify farmers now in their fifties or sixties, who, if given the choice would not have chosen to

be a farmer. Some families have difficulty in accepting that the next generation has other fields of endeavour in mind.

ii. Fight with the older generation. The likely remedies for this situation are to accept the situation and not attempt to force people into an uncomfortable and often untenable situation.

iii. Their spouse does not want them to be involved. The 'dreaded Daughter-in-Law' or sometimes the son-in-law, is often created. The spouse of the farming sibling enters the marriage full of willingness to be part of the family and part of the business only to find that she or he is not welcome.

iv. Siblings, driven by individual self-interest, insist on equal distribution. Sibling self-interest (I want my equal share) is less likely to be a problem if the rules within the family have been made clear from an early age. Where expectations have been managed the interests of the farm are likely to overrule individual self-interest.

In some cases, the older generation is lacking in confidence, self-esteem and belief in the next generation. Sometimes a third party can work with the family to address these issues.

8.4 GOVERNMENT POLICIES

The impact of Government policies can be to aid or hinder succession. Government policies which aid succession include, but are not limited to; taxation, trade and protection, concessional credit, rural adjustment, land clearing, dam building and water entitlements and drought policies

Comments by Campbell (1979) relating to government intervention to assist unprofitable farms is pertinent today.

> *The reason usually given, [for government action or in-action] apart from more obvious political lobbying, is the structural characteristics of the industry-the relatively small-scale nature of most farm businesses, the pressures for agricultural adjustment arising from technological advances, the unreliability of*

> *markets and so on. Yet when governments do intervene, they seem to have a propensity, as Schultz says, for doing more harm than good.* (P.136-137)

Although government intervention is unlikely and unlikely to succeed, there are strong reasons to believe that the situation where the bulk farms in Australia are family owned will continue. As Lloyd (1961) wrote:

> *It is fortunate that the family farm has some claims to economic efficiency; otherwise its considerable political appeal would pose a real problem. The family farm and in Australia the [historically] related concept of the 'home maintenance area', is part of the culture-a sociological institution as well as an economic basis for agriculture. The view is often advanced that democracy flourishes most in a society based on family farm agriculture and that large-scale farming would result in serf-type agriculture.* (p. 140)

Assuming the family farm is likely to continue should it, or other farms, be given government support in the form of subsidised finance? Not according to Campbell (1982) who chaired a committee set up by the Federal Government to inquire into the efficiency of the operation of the Australian financial system. The inquiry's terms of reference included looking at the '*structure and methods of operation of Australia's banking system, non-bank financial intermediaries, the money market, the securities industry, the Reserve Bank and other financial institutions'* (DAFWA, 1982, p.21).

In relation to term and farm development loan funds the Campbell report found:

> *The trading banks have provided long-term loans to the rural sector through the Term Loan and Farm Development Loan Funds since 1962 and 1966 respectively. The funds for these loans have been provided mainly from the banks' own resources, but until late 1978 were supplemented by funds released from Statutory Reserve Deposits. The Committee recommended that the Government should not assist the banks to provide these loans through S.R.D. releases* (DAFWA, 1982, p.23).

Currently, there is no market failure in the financial markets that would justify public provision of concessional finance to the farming sector. In a study on the issues surrounding the overproduction trap in the United States Johnson and Quance (2013) found that the assumption of perfect knowledge, which was common in agricultural

policy, was actually lacking for many farm businesses and found that in many cases there was failure:

i. *of beginning farmers to foresee relative advances in non-farm wage rates and levels of living.*
ii. *to foresee advances in technology and Improvements in the human agent*
iii. *to see the overall consequences (in terms of product and factor prices) of similar actions by large numbers of producers*
iv. *to see inflation or deflation*
v. *to foresee shifts in demand resulting from war changes in the foreign situation particularly in demand and changes in real per capita incomes*
vi. *to foresee institutional changes are Social Security income tax etc.*
vii. *to foresee the consequences of specialisation among farms regions and sectors of the economy and*
viii. *to distinguish between capital gains due to inflation the burning power of resources devoted to the producer (p. 39).*

The observations of Johnson and Quance (2013) are relevant in Australia today where many proponents of young farmer finance have a very short-term time horizon.

Young Farmer Finance schemes are a form of subsidy and implementing such schemes would be challenging for any Australian government because with a bipartisan approach at a Federal level, Australia has been at the forefront of reducing subsidies and tariffs domestically and internationally. On this issue Botterill (2003) wrote:

> *Australia faces important budgetary constraints. As a country with a population which has reached 20 million only in the last few years there are not sufficient resources to provide substantial support to agriculture.* (p.4)

Botterill (2003) then goes on to cite Cockfield (1993) who wrote 'Australia cannot generate enough money in the manufacturing sector to support the rural sector in the way that the EU and the US do' (Cockfield 1993, cited in Botterill 2003, p. 4).

When asked, 'Why governments become involved with schemes such as Young Farmer Finance Schemes'? A senior official in a state Department of Agriculture responded:

> *One of the major drivers for Government investment in anything is market failure against a demonstrated demand. This is always balanced against the quantum of demand and the consequences for investing or not investing. Most Governments want to see a clear exit point preferably not near an election so as their support can be channelled to the next worthy cause... Governments invariably have short term time horizons and want a good news story to be told over one election cycle… With respect to succession planning though government helping the next generation of farmers to enter the industry where is the market failure? There is no failure in respect of sufficient people to buy and operate farms as evidenced by none being deserted and left derelict for want of a farmer to operate. There may be market failure with respect to young people wanting to enter on farm production agriculture as a career. Do these people have to do this through land and other asset ownership, or do they need skills? There thus could be an argument for government to support career development of young people wanting to work in agriculture. Consider the analogy that one can be a doctor without owning a hospital or a truck driver without owning a truck so why is agriculture different?*
>
> *Is the ownership model of Australian agricultural assets changing in that land ownership is not a prerequisite for being a farmer? Does this mean demise of the family farm or just land ownership? There are many family farmers in the UK that do not own land, so succession is based on skills transfer and ownership of tools (tractors etc.). Is there a role for Government in helping young farmers get the tools of their trade? (Department of Agriculture Officer, pers. comm.)*

The proponents of Young Farmer Finance schemes will need to address these issues and convince the shareholders of the lender or the taxpayer and both groups will ask why. Why should the taxpayer assist in financing a person into business when there is no market failure? To date that evidence is lacking. Before embarking on Young Farmer Finance schemes, government would do well to consider the unintended consequences. For example, a farmer aged fifty who wants to buy more land to allow succession to a child who is fifteen may be deemed to be too old and the fifteen-year-old child deemed to be too young to take advantage of the scheme. As a consequence, in an attempt to purchase a parcel of land, a farmer who qualified would be able to pay more than the farmer who did not.

There is an overarching set of questions relating to market failure. There is no market failure when families share the three main aims and achieve them, nor when a family

with universal agreement of all members decides to sell the farm to allow the older generation to retire. Selling to retire may create disappointment where the next generation wants to take over the farm, but the failure is that the family was unable to resolve the issue and satisfy the self-interest of all members. Similarly, if the older generation wants the farm to remain in the family but there is no successor the failure, if there is one, is within the family. If market failure is present it is the failure of farmers to be able to identify professionals who can work with them on a whole of farm business approach which gives the farmer a good prospect of achieving the three main aims. Whilst in virtually all geographic areas in Australia a local lawyer, accountant, farm management consultant, rural financial counsellor or financial advisor will claim to have expertise in farm succession planning most have limited knowledge except within their field of expertise. Many are reluctant to work with other professionals providing a team approach to the client. The market fails to differentiate between those professionals who are adept at succession planning and those who are not.

8.4.1 GOVERNMENT POLICIES AND SUCCESSION

Some of the barriers relating to government policy were identified in the 'Tax in Agriculture Report' (BCA and McCluskey 2016). The report examined the taxation system and identified measures that facilitate and measures that impede; agricultural efficiency and sustainability, industry investment and effective succession planning'

In relation to succession planning specifically, in summary, the report argued that:

> *To better facilitate the timely intergenerational transfer of family business consideration could be given to CGT [Capital Gains Tax] rollover relief being available for the transfer of assets within a wholly owned family group the aim is to essentially provide CGT relief during the life of a taxpayer that would currently be available on death (BCA and McCluskey 2016, p. xv).*

The CGT Concessions currently apply where, amongst other criteria, aggregated annual turnover is less than $2 million or net assets of no more than $6 million. Both these figures are low given the size of many agricultural businesses.

BCA and McCluskey (2016) also recommended that:

> *Further consideration could be given to allowing the intergenerational change in ownership in stock and plant without the need for a 25% continuing ownership interest this would remove and administrative any structural difficulty associated with the current system (p. xv).*

Government and Research and Development Corporation programs including 'Business Skills and Best Practice, The Edge Network, Farm Smart and Farm Biz have all been aimed at increasing the financial literacy of farmers, but the success rate has been low. Calls from farmer leaders for government to subsidise farmer financial literacy courses remain common.

Chapter Nine concludes the thesis and includes some short summaries taken from the text.

9 CONCLUSION

The ABARES figures indicate that the majority of the 52,000 Australian broadacre farm family businesses make insufficient profit, too irregularly to have a long-term future. In 2015-16, forty-eight per cent of these farm businesses had total cash receipts of less than $230,000 and sixty-five per cent had total cash receipts of under $400,000. The highest likely levels of profit, after allowing for an operator allowance are $23,000 and $40,000 respectively. Farmers with businesses with total annual cash receipts of under $400,000 have little prospect of achieving all the three main aims that are to:

- Provide adequately for retirement;
- Pass on a farm to heirs that has reasonable prospects of being a sound economic proposition and financially viable and is the basis for future productivity improvement and growth of wealth for the farming child or children; and
- Provide sufficient resources for the non–farming children to be satisfied with their share of the family assets.

Farmer advisors contributed an assessment of over 6,000 (12% of 52,000) broadacre farm businesses. The majority of these:

- Do not have a viable farm business
- Will not hand on a viable farm.
- Do not have a succession plan
- Are reluctant to develop one

Thirty of the 116 farm businesses will continue beyond the third generation. Of these:

- 100 % gave control the next generation at a young age.
- 93 % set growth goals to enable succession.

- 91 % ran higher stocking rates.
- 88% built through a staged approach, increased livestock numbers, leased land and purchased land.
- 73% had a history of smooth succession.
- 68% had families where siblings worked together to grow and then split the business
- 68% worked for off farm income.
- 68% established a new 'on farm, business.
- 67% traded land.
- 64% received injections of family capital.
- 48% share farmed.

The financial case studies have been included to allow modelling of some possible futures.

Achievement of the three main aims is dependent upon the attributes above, as well as:

i. The success of the generation in control in achieving those aims;
ii. The aims of individuals in the next generation;
iii. The provision of choices for following generations
iv. The success of the next generation in achieving those aims.
v. The family accepted that the plan will always be a work in progress because:
vi. People change their minds
vii. Die unexpectedly.
viii. Unexpected circumstances including poor seasons and markets and government policy can create an environment that results in setbacks in the execution of the plan.

Business owners in each generation started planning at a young age and had:

i. Ensured family cohesion within and between generations
ii. Concentrated and worked hard
iii. Employed and or retained the best people available
iv. Grown the business steadily

v. Managed family expectations

Succession to the third or fourth generation is unusual. It is even more unusual for a family farming business to continue with ownership by more than one branch of the family. Generally, in those families where the three main aims were achieved, one branch of the family has continued to farm. It is unusual in Australia for farm control and ownership to move from siblings to cousins.

Families in which the three main aims have been achieved have been committed to long term planning. Much research indicates that a farm family can achieve succession only if the business is large. This research indicates that most commonly a larger scale business was actively sought because of a determination by the family to grow the business to enable choices including succession choices. The proposition that a farm businesses succession is only likely to be successfully achieved where there is significant asset growth over each generation is supported. But growth alone is not sufficient to ensure succession. In many of the case study businesses in which the three main aims were achieved the succession plan was not commenced until the children in the next generation were young adults. However, the parents had started planning for succession when or before the first child was conceived. They planned early for succession but had no defined succession plan until later.

In addition to a vision and determination to grow the business families, that achieve succession successfully have demonstrated and delivered leadership and dedication to the business and a plan. The plan has been supported by consistent hard work, a team approach, intelligent leadership and high-level business and farm management skills. The business skills have included a real understanding of risk management and the use of capital. Farm management skills, regardless of the enterprise or enterprise mix, have been used to consistently achieve a high-level performance.

In this study those families in which the three aims were achieved had a long history of successful succession and had started to involve the next generation in the business at an early age. History matters. Conversely, in many of those families where the primary motivation was to keep the farm, rather than to grow the business, the business is either now unviable and or the family no longer owns it.

This study confirms Proposition One that Survival will not happen by chance.

The study also confirms Proposition Two, that theory about the growth of non-farm businesses, or their failure to grow, applies to farm businesses. Also, there are some practical elements of the growth of and non-growth of non-farm businesses which apply to farm businesses. There is a distinction between family farms and corporate farms in that the family investor is likely to be more willing to accept lower annual returns than the corporate counterpart.

Proposition Three, that not all farming families want to achieve the main aims is also supported.

The research also supports Proposition Four**,** that farm performance enabling growth over time is necessary but not a sufficient condition for intergenerational survival of farm businesses. A determination to grow to enable choices and effective succession planning and execution are prerequisites of achieving the three main aims.

In summary, achieving the three main aims is difficult and takes a long time. To achieve them farm families need to start building the business early in life, work hard, consistently perform well, keep the family engaged, have a plan and keep open and honest communication between all family members.

Scale is important but scale alone will not enable the achievement of the three main aims. To enable the achievement of all the three main aims the older generation has to be prepared to let go, the younger generation has to be prepared to take over and the whole family has to be satisfied with the result. The achievement of the three main aims is uncommon because it is difficult.

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Abbreviations:

ABS: Australian Bureau of Statistics

ABARES: Australian Bureau of Agricultural and Resource Economics and Sciences

ABARE: Australian Bureau of Agricultural and Resource Economics

BCA: Boyce Chartered Accountants

CBCS: Commonwealth Bureau of Census and Statistics

DAFWA: Department of Agriculture, Western Australia

DEDJTR: Department of Economic Development, Jobs, transport and Resources

NRAC: National Rural Advisory Council

IAC: Industries Assistance Commission

SAP Succession Analysis and Planning Case Studies

USDA: United States Department of Agriculture

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APPENDICES

APPENDIX 1: A TABLE OF EVENTS (CHRONOLOGY)

Chronology of Important Events in the Development of Australian Agriculture in Temperate Regions (Davidson, B.1985 covering the period to the 1983 drought)

1788 First permanent European settlement in Australia. Sheep, cattle and pigs and wheat, barley, maize and other crops introduced.

1792 John Macarthur pointed out that agriculture in Australia can only succeed if commodities are produced for which there is an export market and if these commodities do not deteriorate between farm and market. They should also have a high value in terms of their weight and volume because of transport costs. Industries based on producing commodities which demanded large areas of cheap Australian land and little expensive Australian labour would be the most likely to succeed.

1797 The first Merino sheep imported from Cape Colony by Captains Waterhouse and Kent.

1806 Settlement of Tasmania.

1807 First export of Australian wool.

1813 Blue Mountains crossed, marking large areas of land available for grazing.

1820 Wheat production in Tasmania ensured an adequate supply of grain for Australia.

1824 First settlement in Queensland.

1826 First draught horses imported to New South Wales.

1827 Sugar growing attempted in New South Wales.

1829 Establishment of the colony of Western Australia.

1829 Gibbon Wakefield's 'Letter from Sydney' published, advocating sale of land at a fixed price and subsidised immigration.

1836 First settlement in South Australia.

1836 Squatting legalised in New South Wales by payment of a licence fee.

1840 Commercial apple growing commenced in Tasmania.

1840 Commercial sugar growing established in New South Wales.

1843 J.W. Bull invented the stripper harvester in South Australia, making wheat production profitable close to the sea as land transport costs were not important.

1843 Large-scale boiling-down for tallow established a certain market for surplus sheep and cattle.

1845 Commercial apple growing commenced in Victoria.

1847 Squatters granted 14-year land leases in New South Wales.

1851 Gold discoveries in New South Wales and Victoria led to an increase in population and an assured market for meat and grain.

1852 New South Wales law introduced enforcing strychnine poisoning of dingoes.

1853 William Rendell and captain Cadell established river boats on the Murray, Murrumbidgee and Darling Rivers to provide cheap transport in western New South Wales and northern Victoria.

1855 New South Wales, Victoria and Tasmania became self-governing colonies.

1856 South Australia became a self-governing colony.

1859 Queensland became a self-governing colony.

1860 Wild rabbits introduced near Geelong, Victoria.

1860 Wire fencing introduced. This together with the control of dingoes by strychnine poisoning made the shepherding of sheep unnecessary.

1860 Camels for exploration and transport imported from India.

1860-68 Selection laws enabling settlers to purchase Crown land on a time payment basis introduced in all colonies.

1863 Melanesian (Kanaka) labour introduced in Queensland.

1864 Commercial sugar growing commenced in Queensland using Kanaka labour.

1864 Railway from Melbourne to Echuca completed.

1866 Goyder's line established in South Australia as the safe limit for wheat production.

1874 Regular exports of Australian wheat to Britain commenced.

1876 Railway from Sydney to Bathurst completed.

1876 R.B. Smith invented the stump-jump plough making possible the cultivation of the Mallee lands.

1879 David Brown discovered artesian water on Kallara Station in New South Wales, making grazing away from the river frontages possible.

1879 Professor Custance discovered phosphate deficiency in South Australian wheat lands.

1880 Railways completed to the wheat growing regions in all colonies.

1880 First successful shipment of refrigerated meat from Australia to Britain. Refrigeration made the export of Australian Butter and meat possible.

1881 Sir William Jevons established drainage and irrigation on the Murray River in South Australia.

1882 G.A. Gordon and A. Black reported that irrigation will not be profitable in Australia.

1882 Victorian Department of Agriculture established. By 1900, departments of agriculture were established in all colonies.

1883 Introduction of the farm cream separator.

1883 Wolseley, Howard and Gary invented the first successful shearing machine.

1884 Victorian Royal Commission on Water Supply chaired by Alfred Deakin concluded that irrigation would be profitable and able to pay for all capital works.

1884 Establishment of land boards to prevent 'dummying' and other selection abuses in New South Wales, Victoria and Queensland.

1884-86 Severe drought in Victoria and South Australia.

1885 H.V. McKay invented the stripper-winnower and made harvesting of grain from a standing crop possible.

1886 Victoria passed the Irrigation Act enabling Irrigation Trusts to borrow money from the State to construct water distributary works and the State construct water storages.

1887 Chaffey brothers established irrigation settlements at Mildura (Victoria) and Renmark (South Australia).

1888 Severe drought.

1889 Howard discovered subterranean clover in South Australia.

1890 Bare fallowing of wheat land commenced in South Australia.

1892 A. Bayley and William Ford discovered gold at Coolgardie, Western Australia.

1892 Bodalla Dairying Company introduced the first milking machine. Machine milking was not widely adopted in Australia until the 1930s.

1893 Chaffey brothers' irrigation company declared insolvent.

1893 Irrigation trusts established in South Australia.

1893 Patrick Hannon discovered gold at Kalgoorlie in Western Australia, leading to a large increase in population.

1895 Correl brothers in South Australia discovered that the placing of superphosphate close to the seed when sowing reduced the quantity of fertiliser required and made fertilising wheat profitable.

1895-1903 Severe drought.

1899 Koertz wool press introduced giving a standard bale of 300 lbs.

1901 Federation of Australian Colonies giving the Commonwealth Government control of external trade, quarantine and tariffs.

1902 William Farrer's day length insensitive wheat variety, Federation, released in New South Wales.

1905 Victorian Crown Water Act vested the ownership of all water in streams in the Crown and took control of the assets of now bankrupt Irrigation Trusts. State Rivers And Water Supply Commission established to control water supplies.

1906 Burrinjuck Dam construction commenced in New South Wales.

1907 Mechanical harvesting of subterranean clover seed developed.

1909 Irrigation water charges in Victoria reduced to the amount required to cover schemes operating costs as farmers were unable to pay for the capital works.

1910 W.L. Boyce developed the first herringbone milking parlour. This was not widely used in Australia until the 1960s.

1910 Header harvester developed in Canada by the Australians East, Charlton and Chapman and introduced into Australia.

1910 First internal combustion engine tractor imported.

1913 Irrigation from Burrinjuck Dam commenced on the Murrumbidgee River.

1914 World War I caused labour shortages on farms and large-scale government intervention in agricultural marketing.

1918-20 Severe drought.

1919 Soldier Settlement commenced.

1920 Bulk grain handling introduced in New South Wales.

1920 C. Howard invented the rotary hoe.

1920-30 Road haulage by motor vehicles became common.

1924 Rice growing commenced on the Murrumbidgee Irrigation Area.

1925 State assumed responsibility for the debts of the bankrupt Irrigation Trusts in Australia.

1925 Alan Dodd introduced *Cactoblastis* to control prickly pear in the Queensland Brigalow.

1926 Irrigation water charges in New South Wales reduced to the amount needed to cover the operating costs of the projects and the state assumed responsibility for all capital charges associated with them.

1927 CSIR established.

1927 Burrinjuck Dam completed.

1927 Eildon Weir on the Goulburn River completed.

1927 Failure of War Settlement land scheme recognised.

1928 G. Samuel and C.S. Piper discovered manganese deficiency in South Australia.

1930-35 Great Depression reduced agricultural product prices.

1930-40 Large increase in top dressing of pastures with superphosphate in Victoria, South Australia and Western Australia.

1930-40 Most States passed marketing acts enabling marketing boards to be established with powers to acquire and sell rural produce using a two-price scheme.

1932 Bulk grain handling introduced in Western Australia.

1932 H.W. Bennett's discovered cause of pulpy kidney disease and developed a vaccine to prevent it.

1932	Ottawa Trade Agreement gave Australian primary products preferential tariff treatment in the United Kingdom.
1935	H.R. Martson discovered that coast disease in South Australia is caused by lack of cobalt and copper.
1935	E.J. Underwood and J.S. Filmer showed that cobalt is necessary to prevent Denmark disease (enzootic marasmus) in Western Australia.
1936	Hume Dam on the Murray River completed.
1936	Myxomatosis introduced into Australia.
1936	Wyangala Dam on the Lachlan River completed.
1937	H.W. Bennett's found that copper deficiency is the cause of sway back in lambs.
1938	Zinc and copper deficiency discovered in South Australia.
1939-45	Second World War caused labour shortages on farms and large-scale government intervention in agricultural marketing.
1940-1950	Large scale introduction of milking machines and tractors.
1941	Japan entered the Second World War and the concentration of troops in the south west Pacific created a market for Australian produce.
1942	A.J. Anderson discovered molybdenum deficiency in soils in South Australia.
1944-45	Severe drought in New South Wales, Victoria and South Australia prevented attempted increase in agricultural production.
1946	Soldier settlement scheme for World War II ex-servicemen commenced.
1946	H.W. Bennetts, E.J. Underwood and L.F. Shier discovered that oestrogenic activity in subterranean clover.
1949	Commencement of the Snowy Mountains Project which diverts the Snowy River and increases the area of irrigable land.
1950-60	Widespread use of superphosphate on pastures in New South Wales.
1951	Korean War lead to a large increase in the price of agricultural produce and ensured the success of the World War II soldier settlement scheme.
1951	Successful establishment of Myxomatosis and the control of rabbits.
1952-1972	Seven million acres of sand plain developed in Western Australia.
1952	Bulk grain handling introduced in South Australia.
1955	Eildon Weir on the Goulburn River, Victoria, enlarged.

1955 The full potential of introduced pastures using high stocking rates demonstrated by H.L. Davies at Canberra.

1958 Eucumbene Dam on the Eucumbene River completed as part of the Snowy Mountains Project.

1960-70 Agricultural produce markets in the United Kingdom replaced by markets in the United States, Japan and the Middle East in anticipation of the United Kingdom's entry into the European Economic Community (EEC).

1960 Keepit Dam on the Namoi River completed.

1960 Menindee Lakes scheme on the Darling River completed.

1960-70 Large scale introduction of herringbone milking shed.

1961 Irrigated cotton production commenced on the Namoi River, New South Wales.

1963-70 Development of 7 million acres of Brigalow lands in Queensland.

1967 Burrendong Dam on the Macquarie River completed and irrigated cotton and wheat growing established in the Macquarie Valley.

1968 Blowering Dam on the Tumut River completed as part of the Snowy Mountains Project.

1970-80 Introduction of bulk milk collection in most States.

1970-80 Expansion of wheat growing on the western margin of the New South Wales wheat belt.

1971 Fairbairn Dam on the Nogoa River, Queensland, completed and cotton growing established in the area.

1971 Wyangala Dam on the Lachlan River, New South Wales completed.

1972 Dartmouth Dam on the Mitta Mitta River in Victoria completed.

1973 United Kingdom joined the EEC and most Australian exports, with the exception of wool, excluded from the EEC by high tariffs.

1976 Copeton Dam on the Gwydir River completed and irrigated cotton growing introduced in the Gwydir Valley.

1981-83 Severe drought.

1983 Australian dollar floated

1987 Share market crash

1988 Wool market indicator topped 1117 c/kg

1988	Reserve price 870 c/kg
1989	Wool market collapse. AWC buys 40% of offering
1**990**	Wool reserve lowered from 870c/kg to 700c. Sheep shoots.
1991	Wool slips to 454 c/kg and reserve price suspended
1991-95	1991 95 drought
1994	Wool reserve price 460 c/kg
2000-2010	2000-2010 Drought
2017	Wool market opened at 1400 c/kg

(Davidson, 1985, p. 153-224)

APPENDIX 2: EMAIL FROM PETER MARTIN

From: Martin, Peter [mailto:Peter.Martin@agriculture.gov.au]

Sent: Friday, 31 October 2014 9:58 AM

To: Mike Stephens

Subject: RE: ABARES Data [SEC=UNCLASSIFIED]

Hi Mike,

Family farm definitions – we have a few

Firstly, 'A farming business majority owned and operated by related individuals'. This is not easy to determine. We have a fairly detailed collection of the ownership shares and distribution of profits that we use to determine this classification and for a range of other purposes. This is the one you often see quoted as 'more than 95 per cent of broadacre farms are family operated.' The 'more than' arises because there are farms with complex ownership arrangements difficult to unravel with the available data that are excluded as they cannot be clearly determined to be family owned.

Another that we have used for over 50 years is. 'A family farm is one that uses more than one full time equivalent of family labour (48 weeks of family labour)'. The aim here is to eliminate very small part-time farms where the operators are mainly reliant on off-farm activities and eliminate farms that are entirely operated by hired labour and salaried managers. On the basis of this definition 84 per cent of broadacre farms are family farms.

Various other combinations have also been reported on occasions as well.

Sorry, Mike I must apologise, I seem to have forgotten - exactly what breakdown of broadacre are you were seeking?

Regards

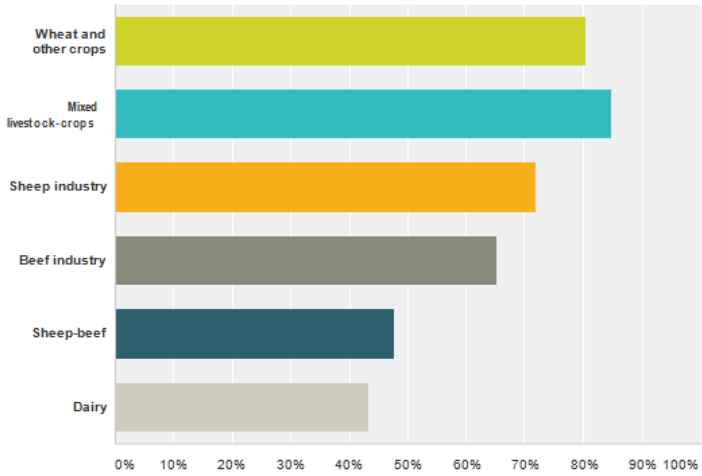
Peter Martin

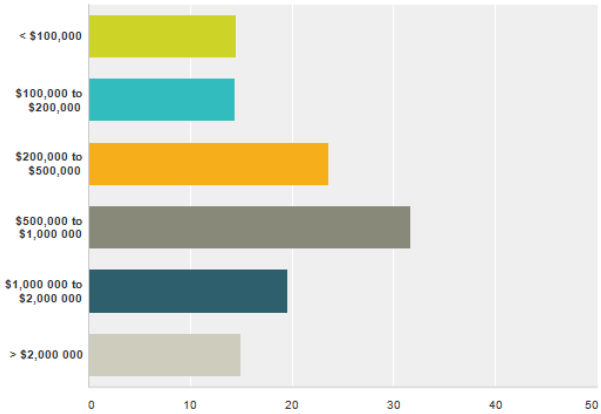
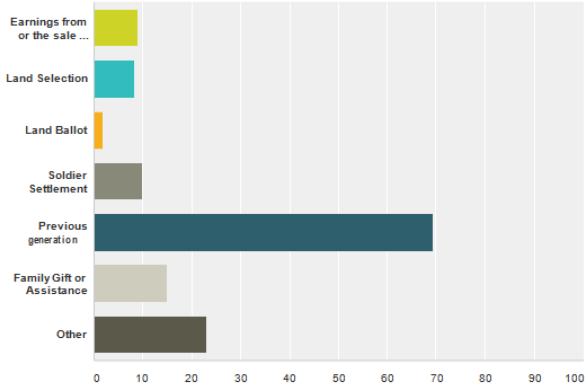
ABARES

Phone +61 2 6272 2047 Email Peter.Martin@agriculture.gov.au

APPENDIX 3: ADVISOR SURVEY QUESTIONS AND ANSWERS

Advisor Survey Answers – 45 respondents	
1	Have you read and understand this consent form and agree to participate in the project? **Answer:** 100% answered yes.
2	Name and contract details (optional) **Answer:** N/A
3	What is your profession (please select one)? **Answer:** • Rural Financial Councillor – 9 (20%) • Lawyer – 1 (2.22%) • Accountant – 6 (13.33%) • Farm Management Consultant – 11 (24.44%) • Academic – 0 (0%) • Banker/ Finance Broker – 18 (40%)
4	What is the nearest major commercial centre? **Answer:** • Benalla • Wangaratta (2) • Colac • Wagga Wagga • Leongatha • Murray Bridge (2) • Geelong • Albury (3) • Brisbane • Seymour • Tamworth • Devonport • Hamilton (3) • Dubbo (2) • Narrogin • Bendigo (2) • Clare (2) • Geraldton • Deniliquin • Albany • Adelaide (2) • Melbourne • Port Pirie • Broken Hill • Echuca • Gawler • Northam • Perth • Esperance • Mildura • Mount Gambier • Jamestown • Geelong • Ballarat (3)
5	What State do you work in? **Answer:** • VIC: 21 • NSW: 10 • SA: 14 • TAS: 3

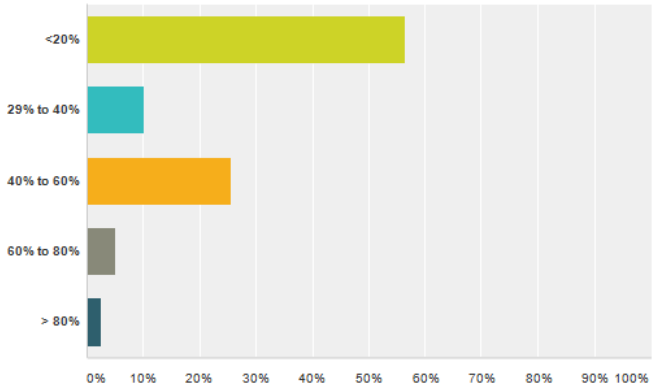
	• QLD: 1 • WA: 6
6	Which industries for you work in? (tick as appropriate) **Answer:** • Wheat and other crops – 37 (80.43%) • Mixed livestock – 39 (84.78%) • Sheep industry – 33 (71.74%) • Beef industry – 30 (65.22%) • Sheep-beef – 22 (47.83%) • Dairy – 20 (43.48%) 
7	Approximately how many years have you worked in your current role or a similar role? **Answer:** • 10-15 years • 23 years • 20 years • 45 years • 25 years • 12.5 years • 20 years • 35 years • 25 years • 30 years • 30 years • 10 years • 45 years • 20 years • 25 years • 25 years • 49 years • 46 years • 28 years • 1 year • 35 years • 20 years • 4.5 years • 8 years • 8 years • 11 years • 11 years • 10+ years • 5 years • 10 years • 15 years • 8 years • 17 years • 15 years • 3 months • 12 years • 13 years • 20 years • 10 years • 15 years • 38 years • 7 years
8	Approximately how many farming clients have you worked with over the last past five years? **Answer:** • 50 • 250 • >100 • 75 • 8 • 100 • 500 • 100 • 200 • 100 • 300 • >200 • 50 • 60 • 250 • 240

	• 300 • 250 • 155 • 200 • 150 • >100 • 70 • 70 • 35 • 20 • 20 • 500 • 60 • 20 • 480 • 250 • 200 • 150 • 200 • 100 • 80 • 50 • 25 • 200 • 170 • 40
9	What percentage of your farmer clients do you estimate have an average Gross Farm Income of? **Answer:** • <$100,000 - 14 • $100,000 to $200,000 - 14 • $200,000 to $500,000 - 24 • $500,000 to $1,000,000 - 32 • $1,000,000 to $2,000,000 - 20 • >$2,000,000 - 15 
10	Where did the capital to start farming come from? What percentage of your farmer clients got their start from? **Answer:** • Earnings from or the sale of another business - 9 • Land selection - 8 • Land ballot - 2 • Soldier settlement - 10 • Previous generation - 69 • Family gift or assistance - 15 • Other – 23 

11 What percentage of your farmer clients do YOU think have a comprehensive, complete, up to date succession plan?

Answer:

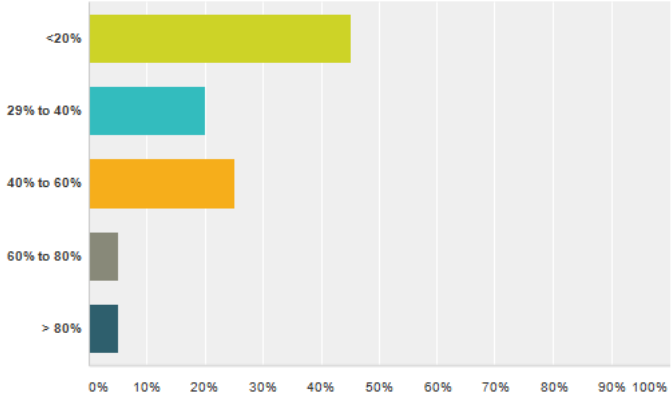
- <20% - 22 (56.41%)
- 20% to 40% - 4 (10.26%)
- 40% to 60% - 10 (25.64%)
- 60% to 80% - 2 (5.13%
- >80% - 1 (2.56%)



12 What percentage of your farmer clients do YOU think can achieve the TRIFECTA? (Funds to retire, viable farm, content non-farming children)?

Answer:

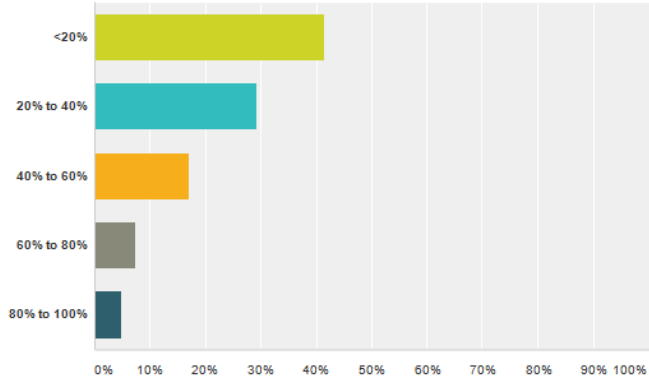
- <20% - 18 (45%)
- 20% to 40% - 8 (20%)
- 40% to 60% - 10 (25%)
- 60% to 80% - 2 (5%)
- >80% - 2 (5%)

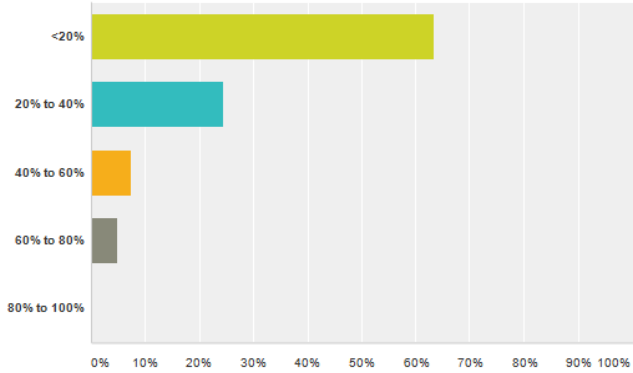
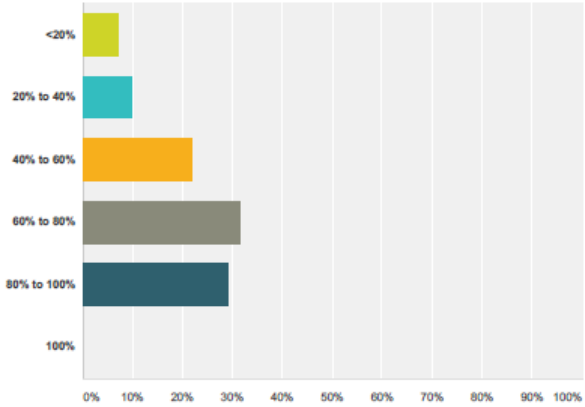
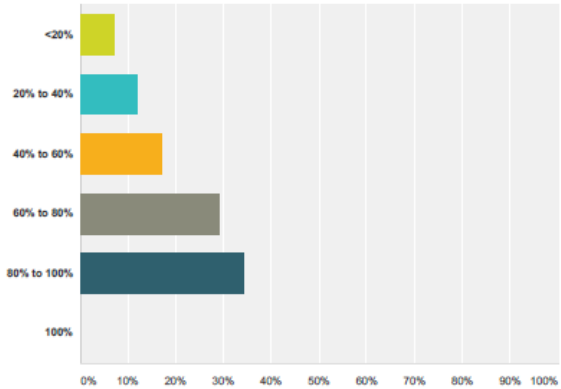


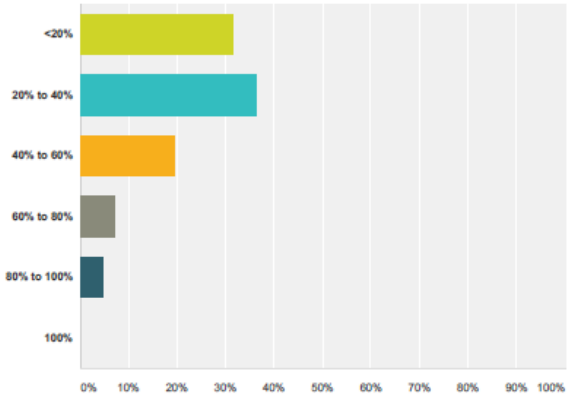
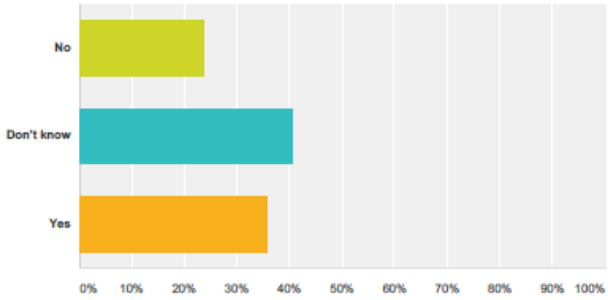
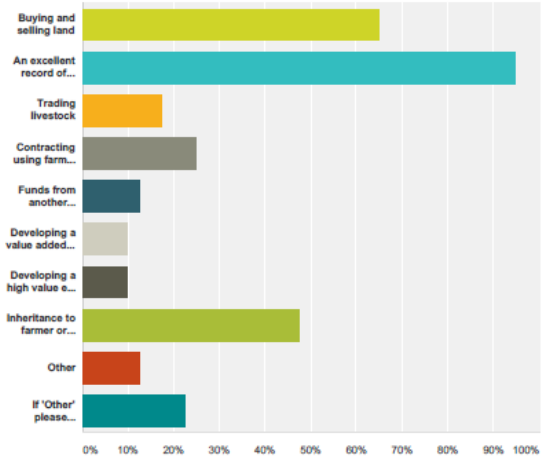
13 What percentage of your farmer clients depend on off farm income for living and education expenses?

Answer:

- <20% - 17 (41.46%)
- 20% to 30% - 12 (29.27%)
- 40% to 60% - 7 (17.07%)
- 60% to 80% - 3 (7.32%)
- 80% to 100% - 2 (4.88%)



14	What percentage of your farmer clients depend on off farm income for capital repayments? **Answer:** • <20% - 26 (63.41%) • 20% to 30% - 10 (24.39$) • 40% to 60% - 3 (7.32%) • 60% to 80% - 2 (4.88%) • 80% to 100% - 0 
15	In a situation where they have to decide between a viable farm and an almost (eventual) equal distribution of assets to their children what percentage of your farmer clients delay the decision because it is too difficult to decide? **Answer:** • <20% - 3 (7.32%) • 20% to 30% - 4 (9.76%) • 40% to 60% - 9 (21.95%) • 60% to 80% - 13 (31.71%) • 80% to 100% - 12 (29.27%) • 100% - 0 
16	In a situation where they have to decide between a viable farm and a content family what percentage of your farmer clients will put the 'needs' of the farm ahead of a near to equal distribution of assets to the children? **Answer:** • <20% - 3 (7.32%) • 20% to 30% - 5 (12.20%) • 40% to 60% - 7 (17.07%) • 60% to 80% - 12 (29.27%) • 80% to 100% - 14 (34.15%) • 100% - 0 

17	In a situation where the trifecta was or will be achieved what percentage of clients disposed / will dispose of assets by passing them on to the next generation in order to make themselves pensionable? **Answer:** • <20% - 13 (31.71%) • 20% to 30% -15 (36.59%) • 40% to 60% - 8 (19.51%) • 60% to 80% - 3 (7.32%) • 80% to 100% - 2 (4.88%) • 100% - 0 
18	Has there been significant injections of capital? If yes, approximately when? **Answer** • No - 10 (23.81%) • Don't know – 17 (40.48%) • Yes – 15 (35.71%) 
19	Which of the following factors will or have enabled your farmer clients to achieve the trifecta? **Answer:** • Buying the selling land – 26 (65%) • An excellent record of managing a farm business – 38 (95%) • Trading livestock – 7 (17.50%) • Contracting using farm equipment – 10 (25%) • Funds from another business – 5 (12.50%) • Developing a value-added product – 4 (10.00%)  • Developing high value e.g. seed stock business - 4 (10.00%) • Inheritance to farmer or spouse – 19 (47.50%) • Other (please describe) – 5 (12.50%)
20	Can you list the five 'must do's' in order of importance for a successful succession plan?

	Answer: • Open and clear communication between all family members. Using an experienced succession planner to set realistic goals. Ensuring equality between all siblings. Listening to each person individually. An easy to read document and agreement outlining the plan. • Family communication • Never stop planning. Give it the time and money it needs. Be open to doing things differently. Start now and keep planning your whole business life. Identify where you want to be in time. • 1: Do an economic analysis of the farm, i.e. size, operational capacity, income earning, debt serviceability etc. 2: establish clear goals to be achieved. 3: Get family agreement. 4: Document and seek accounting, legal, banking and financial planning advice. 5: set timeline • 1. Engage a trusted and skilled external party who understands the business and the people who operate and own the business. 2. The trusted person meets with asset owners, active members and interested parties to develop individual objectives. 3. Review the current farm business performance and equity. 4. Develop a game plan in broad terms to assess viable options. 5. Go to the accountants and solicitors last when you have broad game plan documented. • Start early off farm investments for non-farm siblings Strong business plan and forward projections Hold some assets in retirees name for security Professional advice. • Start early, open communication, get an outsider to assist, older generation have other activity, debt reduction and saving goal. • Consult professional Generate Options Start decision making develop your plan Implement your plan. • 1. Clear goals for each family member 2. Clear understanding of what can and can't be achieved 3. Skill sets of each participating family member agreed to and roles assigned (may be progressive) 4. Clear time frame for the plan 5. Legal and financial issues are 'sorted' with relevant parties. • Full understanding of clients' needs and wants -listing of all aspects @ MV and Liabilities - Document plan of actions - Action plans - Ongoing review. • Learn to work together Commence planning and discussion over time Understand concept of fair rather than equal External dispassionate advice/ adviser Make time together enjoyable. • Start early well before plans need to enacted. Talk about it early with family members (create a template for family communication) Learn how to make operational decisions as a team early Learn how to make strategic decisions as a team Then talk succession.

	• address the issue very early have regular meetings a) on broad policy b) on day to day issues be strict on accounting & budgeting recognize other people's skills trust. • Affordable Practicable Acceptable Unselfish Protect the farm business. • 1. Running a highly profitable business 2. Having a business structure which rewards on work and minimizes tax. 3. Having a well understood goal 4 keeping all family members well informed of good & bad news. 5 having a plan B. If the farm goes under. • Make good business decisions, be commercial in all discussions with family, treat people as if not family, run a strategic advisory board. • Plan Communicate Bring in a third party to consult Act early be decisive with final initiatives - use legally binding agreements. • Set own and nexgen expectations before they join the business Ensure arrangements are documented, signed off and address the eight key scenarios Consolidate expectations regularly and bluntly Set up entry to business to allow nexgen to test whether they are suited for entrepreneurial farming with skin at risk AND whether working together is good for a career and relationships Develop a team of advisers • Involve all Have someone driving the process (an independent/separate from the business person helps) Make it time bound Reviewed regularly • Start planning early. Talk about any business continuance plans when new family members start working on the family farm. Be clear. Discuss and re discuss. • Consider the needs of all parties. Be fair to the non-farming siblings Engage a financial planner or succession specialist. The earlier that it is started often the outcome is better. Ensure that the business can actually afford it. • 1. Get all interested parties at the table. 2. Plan early... might be 10 years away…that way balls can be set in motion off farm etc. 3. Keep eye on the prize, don't wind down to retirement... farm needs to more than ever pay its way. • Honestly Equalism between siblings Clear timeframes Reasonable financial goals Use of outside advice. • Early Planning Open Discussion with all parties Clear direction Right/correct Advice No emotion. • Start early Talk within the family Talk to professionals Create a plan Stick to the plan. • Speak to a financial planner Understand what you want to do or achieve Get the family involved Work with your planner to implement Continue to liaise with your planner. • Structured meetings, with Agendas & Discussions Topics to be provided to all attendees PRIOR to each meeting. Everyone must have buy in everyone must be open & honest (with themselves, & each other) Do not allow ninjas to prevent progress each meeting MUST end with an achievement towards an end goal.

	• Start early discussing with family. Understand everyone's perception of what they expect. Utilization of a specialist who understands the business. Continuous planning for succession. • 1) Start early 2) be open with all involved 3) honest with all involved. 4) Realistic plan 5) Manage expectations. • Use of Advisors Business Acumen Effective communication. Early implementation Recurring reviews. • Acknowledge that it exits. Have the family involved at all steps and have open honest discussion Talk to a professional Succession planner & take time to understand the concept & how the plan will have targets to achieve Implement the plan, however need to stay flexible with major changes. • See a need to have a plan in place Must have access to the correct professionals to assist Must have the 'buy in' of others involved in the business to achieve a goal Must be able to be clear that not everyone involved will have the 'perfect outcome' - compromise is likely. • 1. Start early 2. Invest off farm 3. Manage expectations - be transparent 4. Invest in best practices 5. Manage debt. • Willingness to understand & address the issues. Willingness to accept professional advice. Action not procrastination. Proactive and can do attitude of adviser. Recognition of changing circumstances and need to update the plan from time to time. • Decide when you would like to retire. Decide how much you wish to retire on. Clarify if the farm can achieve these goals. • A team approach with other professionals Good communication Transparency
21	Can you list the five 'must do's' if order of importance, to ensure that a successful succession plan achieves the trifecta? **Answer:** • Ensure that you have hired the right expertise/planner to develop the plan for you. The farm needs to be financially viable enough into the future. A farm business plan needs to show future viability. Communication between all parties is regular and open and honest. Setting a realistic plan from the start, that is achievable to meet everyone's' needs. • Limit no of children • Same as above. Start now. It's a whole of life business plan.

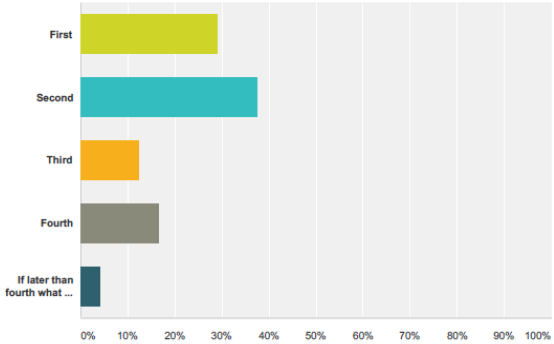
	• 1. farm business performance. 2. Diversify assets over time. 3. strong equity 4. A person who acts as the driver to keep it moving 5. This should be no. 1 all individuals need the core values: respect, empathy, trust, patience. • Keep all involved up to date with what's happening and why Recognition of the stay at home sibling farmer's input Support & understanding from non-farming siblings Parents need some security for long retirement Insurance planning (Sickness Accident Death). • Get agreement among the parties. Don't leave it too late. Consideration of all points of view (Off farm and on farm parties) Choose your adviser or consultant carefully. Try to cover as many potential future problems as possible. • See above! Planning and desire to achieve the clear goal are critical to achieving the trifecta. • Consult professional Generate Options Start decision making. Develop your plan Implement your plan. • 1. Agreement on what is needed to achieve the trifecta (with adequate time to achieve it) 2. Realistic assessment of current status (land, people and enterprises) 3. Realistic goals and strategies to achieve agreed end-state 4. Willingness to invest in the right management to drive the strategies 5. Good external advisers. • Full understanding of clients' needs and wants -listing of all aspects @ MV and Liabilities - Document plan of actions - Action plans - Ongoing review. • Develop low risk, profitable farm business Continue plan development and adaption Promote education and continual learning Use low cost, low risk trialling of new practices Move earlier rather than later on handover of responsibility. • Needs to be financially viable. Must focus on relationship in family AND farm transfer Need to not have a 'poison pill' e.g. creates a separation between generations off farm investment helps Need a multi-disciplinary approach. • Communication trust strict fiscal policies a long term plan/goal develop your own hobby (other than the farm!)'. • Concentrate on results not mechanics Maintain a viable farm business Beware divorce (needs protection) Have savings other than in the farm Breadwinner insurance. • 1. Equal good education for each child 2. Don't socialize your children into Agriculture if they don't fit 3Teach that the inheritance of the farm is earned by 20 years hard work not given by right 4. Invest in off farm assets & super for an Independent retirement. 5. Give the next generation management control by the time they are 30 yo 6. Trust your daughter in law (son) with assets. • Make good business decisions, be commercial in all discussions with family, treat people as if not family, run a strategic advisory board. • As above.

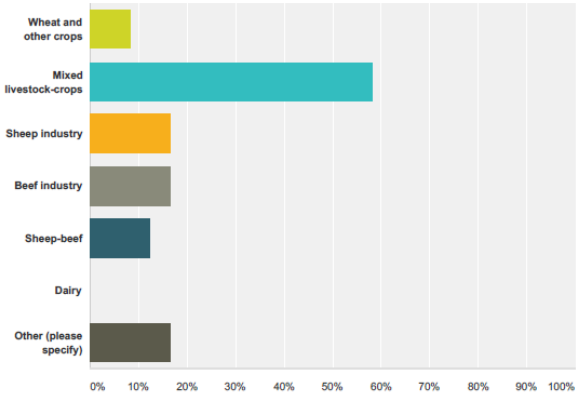
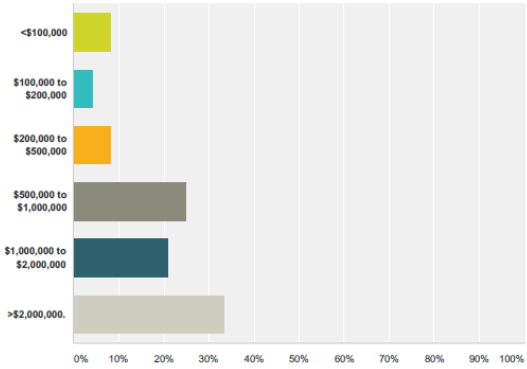
	• Retiring party has sufficient off farm income not to drain the business. Business is sound financially Next generation has the skills to run business Off farm children treated fairly • Be clear and open about expectations right from the beginning. Allow opportunities to change the plan. • No. • - Invest off farm in FMD's or superannuation. - Have the right trading and land holding structures for asset protection and taxation minimisation. - Ensure that the accountant, solicitor and financial planner are 'on the same page' and do what's right for the customer rather than themselves. - Find out what each party actually wants rather than assume. - Keep records and document goals and objectives that are time bound. • Ensure the farm is not sold off in portions and becomes at a scale it remains unviable Ensure equity levels of the business are strong Ensure business has invested in off farm capital e.g. property, FMD's, Super etc. to ensure exiting party has sufficient income without continuing to draw a wage from the property Ensure all parties agree on the end result Use outside advice to mediate meetings. • Plan early Advice from Specialists Reduce/repay debt All parties to understand direction/plan Stick to the plan • Start early Talk within the family Talk to professionals Create a plan Stick to the plan. • Speak to a financial planner Understand what you want to do or achieve Get the family involved Work with your planner to implement Continue to liaise with your planner. • A disciplined & structured approach must always occur. Annual investment off farm must be achieved, despite seasonal conditions (no matter how small). Split the investment risk between cash, shares & property Consult with valued advisors (Bank, Accountant & Farm Consultant) to achieve a varied opinion. Review regularly, & all parties must attend with an open & honest approach to the ongoing success of the succession plan. • All the above. • 1) Start early 2) be open with all involved 3) honest with all involved. 4) Realistic plan 5) Manage expectations. • 1. Understand your current financial position. 2. Understand what their viability & sustainability is 3. Have a profitable farm 4 Have professional advice. • Re-assign importance of the business and personal needs where appropriate. • 1. Start early 2. Invest off farm 3. Manage expectations - be transparent 4. Invest in best practices 5. Manage debt. • Understand cannot rarely treat all children equally. Typically, father being willing to give up management control.

	• 1 When to retire and on what annual income. 2 Transfer of farm ownership and assessment of viability 3 Transfer of management and financial control 4 A communications/severance plan 5 A Contingency plan. • Off Farm income Off Farm Investment. • Be profitable Communicate Document process and track profess to milestones. Be equitable. Have time constraints.
22	Do you have anything further to comment? **Answer:** • I believe many farmers have no idea of who can help with succession planning. Some use accountants which are generally not ideal. Many do not know that Rural Financial Counsellors can help them for free. • I believe many farmers have no idea of who can help with succession planning. Some use accountants which are generally not ideal. Many do not know that Rural Financial Counsellors can help them for free. • Get started now. • Clients generally attend to succession planning to late. • It is an area that I believe that farm management consultants should operate in and involve other professionals as required- not the other way around. • The more sibling's the harder it is! Care needs to be taken in the process not to drive a wedge into the family. Parents reluctant to let go of ownership and management are a major stumbling block. • Do not avoid the issue until it is forced upon you. • Good on you Mike, great legacy to leave at the end of your career. • The 'family farm' should not be regarded as sacred, each generation needs the opportunity to make their own mark in society. • It is a pity that the lawyers have ensured that nuptial agreements are seldom achieved. Divorce is the greatest threat to farm businesses and that threat prevents progress in succession. The farm business must be protected and the farming generation must inherit the bulk of the wealth (mainly farm land) under a situation of owner occupiers. Non-farm siblings are usually greedy and not appreciative of what they have been given nor do they contribute to the retirement of the parents. The cost of education in WA is a huge threat to the trifecta with many having to contemplate FIFO farming with all the problems that creates. Currently $40,000.00+ per child. • At least a once a year ...state of the nation family conference. Much better a quarterly business meeting with all parties involved Ensure all family members over 18 have a reasonable will. If parents lay theirs on the table why not everyone Leave a letter of instruction to your executors Recheck the capital accounts in your balance sheet. Large

	inter family debts. Wills should largely be done with your accountant & finalized at a joint session Succession planners are very helpful in reviewing the options & getting a whole of family plan agreed to then take to the accountant. Review the wills every three years. The accountant should minute this. Insure the key workers. Plan for the worst, hope for the best. Promote on performance not pedigree. Remember there are only three ways to acquire a farm Patrimony, matrimony, parsimony. • I couldn't complete the question about sources of capital. • No - New to the roll so I've had to extrapolate from a limited number of interactions with customers and what I've heard from team members in this area. • Lots. • Succession planning is one of the biggest issues that affect farming families in my area and land prices have risen dramatically and often the non-farming children appear to be disadvantaged. This is until they realise that the farming siblings are simply the custodian of the land and the business until the next generation is ready. • I have found that I have many customers who have spoken to our FP's and they are grateful that we have put them in front of them as they believe they would not be in the situation that they are if it wasn't for their help and advice. • Currently relating to the smaller connections with limited land & a lot of off farm work. • Less succession planning occurring in the industry due to less succeeding farmers but for those farmers who do engage, the process is becoming more and more complex. Very few lawyers (an important element) have the expertise to do this type of work. Numerous accountants offer the service but do not have the knowledge or the understanding of family farms to deliver what is required. Often the 'soft' skills are the hard skills! • A good plan needs to understand the financial and lifestyle requirements of the generation retiring. Also needs to take into account the financial burden/implications and lifestyle choices of the next generation. (Some next generations do not want to take on the burden they have seen their parents work through). Farming and business skills of the next generation should not be a concern for the retiring generation, assuming the farm is not supplying an income stream (and it shouldn't because it usually hasn't in the past and if it did, it would have provided an adequate retirement fund anyway. Communication is critical and if it hasn't been successful in the past then it is unlikely to be successful moving forward (bearing in mind an RFC usually only deals with problem situations).

APPENDIX 4: FARMER SURVEY QUESTIONS AND ANSWERS

	Farm Survey Questions
1	Have you read and understand this consent form and agree to participate in the project? **Answer:** 96.55% said yes
2	What is your position in the business? **Answer:** • Owner – 4 (18.18%) • Owner / Manager – 18 (81.82%) • Manager - 0
3	What is your gender? **Answer:** • Male – 23 (95.83%) • Female – 1 (4.17%)
4	In the family in which you were born were you the first or a subsequent living child? **Answer:** • First – 7 (29.17%) • Second – 9 (37.50%) • Third – 3 (12.50%) • Fourth – 4 (16.67%) • If later than fourth what was your birth order – 1 (4.17%) 7th generation 
5	What is your nearest commercial centre? **Answer:** • Beaufort & Ararat • Holbrook • Forbes (2) • Hamilton (5) • Camperdown • Mortlake • Young • Ballarat / Skipton • Lake Bolac • Pyramid Hill • Parkes • Birchip • Busselton • Rokewood / Ballarat • Benalla (2) • Tottenham • Ballarat • NGF
6	Which State do you farm in? **Answer:** • ACT – 0 • NSW – 7 (29.17%)

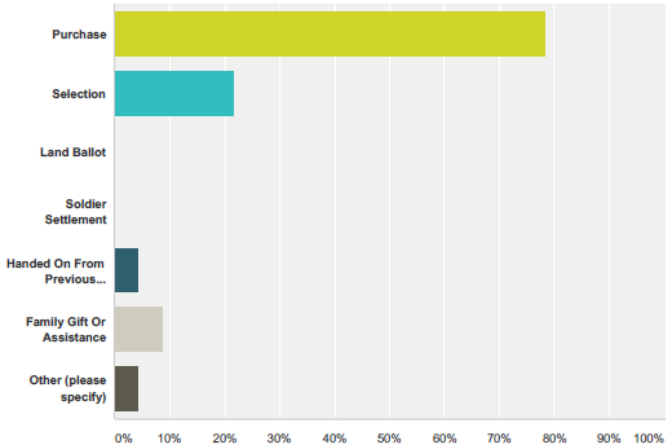
	• VIC – 16 (66.67%) • QLD – 0 • Tas – 0 • WA – 1 (4.17%) • SA – 0 • NT – 0
7	Which industries for you work in? (tick as appropriate) **Answer:** • Wheat and other crops – 2 (8.33%) • Mixed livestock – 14 (58.33%) • Sheep industry – 4 (16.67%) • Beef industry - 4 (16.67%) • Sheep-beef – 3 (12.50) • Dairy – 0 • Other (please specify) – 4 (16.67%) – Pigs (3) & Vineyard (1) 
8	What is the typical annual turnover of the business as measured by Gross Farm Income? **Answer** • <$100,000 – 2 (8.33%) • $100,000 to $200,000 – 1 (4.17%) • $200,000 to $500,000 – 2 (8.33%) • $500,000 to $1,000,000 – 6 (25.00%) • $1,000,000 to $2,000,000 – (5 (20.83%) • >$2,000,000 – 8 (33.33%) 
9	In what year (approximately) did the founding family business commence? **Answer:** Date ranges from 1816 to 2015

- 1850
- 1870
- 1871
- 1875
- 1885
- 1895
- 1901
- 1904
- 1910
- 1913
- 1925
- 1927
- 1930
- 1932
- 1939
- 1940
- 1952
- 1956
- 1960
- 1967
- 1974
- 1983
- 1990
- 2011

10 Please tick all appropriate

Answer:

- Purchase – 18 (78.26%)
- Selection – 5 (27.17%)
- Land Ballot - 0
- Soldier Settlement - 0
- Handed On From Previous – 1 (4.35%
- Family Gift Or Assistance – 2 (8.70%)
- Other (please specify) – 1 (A small handed on from family member and purchased from family.



11 On a scale of 1 to 7 how important were each of the following factors in the commencement of the original/foundation business? What was the original funding method?

Answer:

	1	**2**	**3**	**4**	**5**	**6**	**7**	**Avg.**
Sale of a business or farm	8	2	3	1	0	0	3	**2.53**
Savings plus borrowing without collateral	4	1	4	1	2	2	5	**3.89**
Savings and/or borrowing with collateral	3	1	1	2	2	1	6	**4.25**
Non-commercial assistance to the founding farming investors	7	3	1	2	1	1	1	**2.56**

12 On a scale of 1 to 7 how important to successive generations of the business have been the following as sources of new capital?

Answer:

	1	**2**	**3**	**4**	**5**	**6**	**7**	**Avg.**
Annual retained profits	1	1	1	2	4	4	9	**5.5**
Farmer off farm income (job)	8	4	0	4	1	1	0	**2.39**
Spouse off farm income (job)	9	2	1	2	2	1	0	**2.35**
Contracting	10	5	1	2	1	0	0	**1.89**
Share Farming	12	2	1	0	1	1	0	**1.76**
Sale of Assets	11	4	0	1	1	1	0	**1.89**
Previous generation	2	1	3	1	4	3	5	**4.74**
Family	4	3	0	3	2	1	4	**3.88**
Other	3	0	0	0	0	0	3	**4**

Other:

- Sale of assets, in our case, refers to off farm assets
- Solving the generational change in each generation
- Bank
- Minimising taxation / personal expenditure

13 How many generations of your family have owned the farm? (question linked to questions 14-20 depending on the number of generations chosen in this question)

- One – 1 (4.35%)
- Two – 4 (17.39%)
- Three – 8 (34.78%)
- Four – 6 (26.09%)
- Five – 3 (13.04%)
- Six – 0
- Seven – 1 (4.35%)
- More than Seven - 0

14
15
16
17
18
19
20

How and when was the farm transferred between generations (please start with current generation)

Questions - Data for these questions is available upon request.

1. Was the farm transferred or purchased?
2. What year did the transfer or purchase take place?
3. Has the area farmed, increased, decreased or remained the same in this generation?
4. Were Siblings paid out?
5. Were Siblings pushed out?

6. Were significant death or Capital Gains Taxes paid by this generation?

21 Major Events:

	Gen A	Gen B	Gen C	Gen D	Gen E	Gen F	Total
Drought	15	13	11	9	5	2	19
Fire	3	2	2	2	2	0	7
Flood	1	3	4	7	2	1	8
Plague	1	0	1	1	0	0	2
Disease	1	3	2	0	0	0	4
Commodity Booms or Busts	11	14	8	8	3	2	18
Succession	6	9	8	6	6	3	15
Marriage	7	8	6	6	5	5	14
Divorce	1	1	0	0	0	0	2
Death	6	6	4	4	2	2	12
Birth	7	7	6	3	2	2	11
Government Policy	5	9	5	4	3	2	12

Other Events:

- Introduction of mixo
- Depression in Gen F
- Family partnership split – 1994
- Gen B family member leaving partnership

22 At what times during the whole life of the business was/were there major sources of capital injection?

Answer:

- Wool booms of late 80s and 50s all that I know of
- Wool booms of late 80s and 50s all that I know of
- 1952 -1975
- transfer of generation in 1955
- Buying more land
- Wool boom in 80's
- None from outside Agriculture, boom times 1952 and 2002.
- 1925 purchased original property 1967 - probate 1970 - purchase of another property. 1973 - sale of said property. 1994 - purchase of another property. 2004 - purchase of another property. 2005 - sold one property. 2014 - property lease and stock purchase.

	• Borrowings from banks was used to increase assets relating to land purchases and off farm assets. • Capital was injected at each land purchase event. Our family business has grown from 40 acres in 1850's at Learmonth, to 90 acres at Middle creek, to 1000ac at Lake Goldsmith to 771 acres at Mininera East, to 8336ac at Mininera East, Streatham, Vite Vite and Nerrin Nerrin and is owned by 5 families of 2 generations. • When land was purchased and building of piggery. • After 1994 injections accelerated due to different circumstances and management strategies. • Everything PAID FROM farm income on the farm. • Never really. Growth was through retained profits. • initially, wool reserve scheme being taken away, ongoing dry/drought condition • 1998 • Commencement in 1927, when Purchasers Fiancée family loaned money to purchase and match bank finance. Purchaser actually married someone else who brought additional land to the business. Amount injected at that time is not known. During generation B (that's me) some land was sold off to meet payments to other family members and in later years a further 90 acres was sold for $120,000 to maintain farm liquidity. • Times of Land Acquisition • 1973,1987, 1990 • Restructure of loans from bank to Rural Finance in 1976 1980 income from spouse Loan from Rural Finance
23	Approximately how much was injected at each time of significant capital injection? **Answer:** • Don't know exactly • 200,000 • Purchase of land by debt finance - several millions each time in today's dollars • Unknown • 250000 • Not able to answer, but allowed purchase of additional property in 1992. • 0 • 1925 n/a 1967 -$60,000 1970 -$45,000 1973 -$95,000 1994 -$120,000 2004 -$1,000,000 2005 - $560,000 2014 - • $300,000 • Between $200,000 and $1,500,000 • a large percentage of the purchase price, approx. 80%

	• Between $1,000,000 and $2,000,000 • The most significant borrowings occurred in about 2006 of about 6m. Borrowings have been consistent all along other than this. • Nil • 200000 pounds, 400k and $600k • 300000 • 1973 $10,000. 1987 $40,000.1990. $ 30000 • Restructured loan $80000
24	How was the succession of management chosen at the change of each generation? **Answer:** • Around kitchen table • Some thought and Planning Combined with personal choices by participating child. • Male side of family until current generation then youngest daughter and husband • The sons • A-B - Natural progression as parents wanted to retire and had outside interests. Happened when son was in his 30's. B-C - Caused by death of father. Transition of management was an issue in our case, as Dad in his 70's still wanted control of management. I was 37 at the time of his death. Dad did not have outside hobbies or interests which I think made it harder for him to be able to let go of management. • Varied and to in depth to comment here. • 1967 - Death Watch this space (in trust) • If person or persons within a family were interested in farming that was the motivator to change. • I can only comment on the most recent 2 generations. The males who worked the land and committed their life to farming were given the opportunity. • When arrived home from Ag College our father handed over responsibility. • My father was an only son. He paid out his sisters. My Dad set up a life insurance policy that we paid into that covered us if he was to die prematurely or a lump sum at the end to cover the payment to the other siblings. I have sold a third each to my two sons, they having the intent to buy the remainder when i am no longer play an active role. • Generation 1 purchased farm. Generation 2 purchased off generation 1 and generation 1 leant money to his siblings to also buy farms. Generation 3 only child. Generation 4 purchased in trusts with generation 3 and sibling. • Both times fathers passed on management as soon as son/s returned from university. • My parents chose to undertake succession planning with our agreement. • Went to the sons as the daughter's didn't want to farm. • Trust.

- Generation A made the decision and generation B complied.
- Organic.
- Father wanted to sell

25 Were individuals from outside the family employed in senior technical, management and or governance roles in any generation?

Answer:

- No (9)
- Yes
- No. most senior technical roll, should be such as an agronomist, or Benchmarking service. No other management employed.
- Accountants and lawyers were important in all generations. Specialist Succession advisors in 1998. Agronomists and investment advisors are now employed as well.
- 3rd to 4th generation, succession specialist. none previously.
- Advisors have been employed at all levels
- No, but could have been useful, however the business may not progressed as far as it has.
- Current generation has people employed in governance roles.
- Dad used an Ag consulting firm. My succession set up is from many years of planning and deliberation. Professionals have held me up rather than assist much of the time.
- Yes we had advice from Bill Thompson from Commins Hendricks Solicitors.
- Farm Management consultants were used for a number of years in the 1960's.

26 Did/does any generation (Gen F is the current generation, E one back & so on) have exceptional skill in terms of:

Answer:

	Gen A	**Gen B**	**Gen C**	**Gen D**	**Gen E**	**Gen F**	**Total**
Stockmanship	2	3	5	8	11	11	17
Genetics/Breeding	1	3	3	6	4	7	15
Cropping Management	1	2	5	2	6	11	18
Pasture Management	1	3	3	3	7	10	16
Administration	1	2	4	3	7	12	16
Supervision of Family or Staff	3	4	4	6	5	9	14
Mentoring	2	3	2	5	5	6	13
Leadership	2	4	2	7	6	9	14

Vision	3	2	2	8	12	10	20
Other	0	0	0	0	0	0	0

Other:

- Our family has always been strong in identifying opportunities, business/financial management.
- Gen F - Very logical thinkers and intelligent to go with it. Gen E - Hard working culture and contribution. Gen D had the vision on and off farm. Solid workers.
- Gen E and D only concentrated on what drove profits and only aimed to achieve 80% of achievable profit - used scale rather than achieving maximum return to grow the business

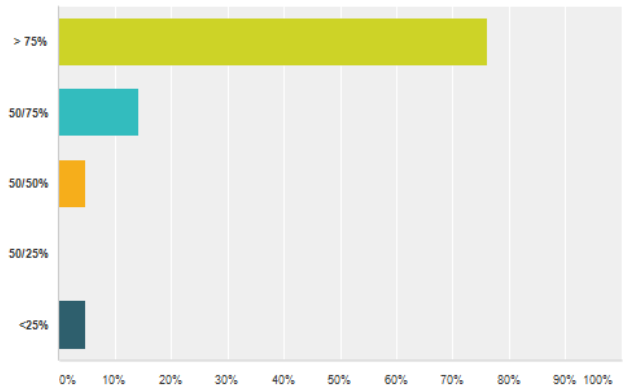
27 How does Generation F (now) in the family rate generation G's (next) potential skill in terms of?

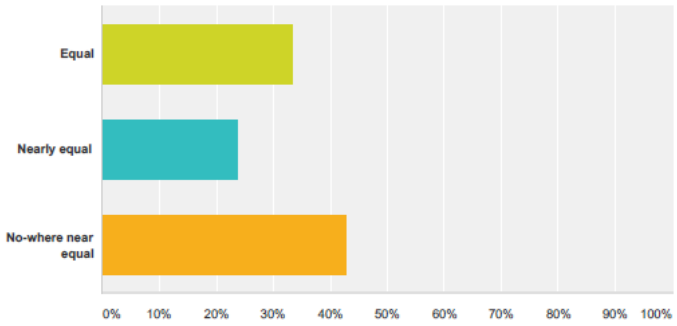
Answer:

	1	**2**	**3**	**4**	**5**	**6**	**7**
Stockmanship	1	0	1	2	4	0	5
Genetics/Breeding	0	0	1	3	3	3	1
Cropping Management	0	0	0	1	4	3	4
Pasture Management	0	0	0	1	4	2	6
Administration	0	0	1	1	5	1	4
Supervision of Family or Staff	0	0	0	0	4	4	4
Mentoring	0	0	1	0	3	1	4
Leadership	0	0	0	2	1	5	4
Vision	0	0	0	1	1	2	9
Other	0	0	0	0	0	0	1

- I've only got little kids. Too early to tell
- Too hard to guess how or if my 3 and 7 year old will be skilled. I expect their skill set will need to be expanded to include all of the above plus robotics management at farming.
- I am Gen F, my only son is 9, so bit early to tell! But have answered on where his current interests lie.
- To young
- Too young to tell
- They are just out of nappies. The company succession will only allow those that are committed (time and dollars) and management skills/contribution to be part of the farming/business succession.

	• Marketing (grain and agents) • NA Generation is only 10 years old • Too young - they need to choose their own path and its way too early - but having said that they both have a strong leaning towards the life we lead • There is no generation G as the farm is now sold.
28	What recommendations do you have about what to do, or not to do, to ensure a successful and smooth succession? **Answer:** • Talk about it. • Start early. Set expectations into the child's mind. If expectations are met, conflict rarely arises. • All parties to have a good education and to be receptive to advice. Seek good advice from experienced advisors to lead process. Understand options open and be realistic about value of assets. Give succeeding party time to buy out off-farm siblings. Retiring generation to be supportive and active in succession plan. Strive to be fair but not necessarily equal. Recognise the time value of money. • Seek Professional Help • Give them a go very young • Recognise and listen to when next generation want to take on management. That energy needs to be captured • Give the next generation ago earlier rather than later. Share the business, don't dominate as older generation • Not to many • My kids can take on the farm at an early age like we did, but only if they want to. There is no pressure to pursue a career in ag if it is not what you love • Sow the seed with children when they are young, having interests such as chooks, pet lambs, planting trees etc. and enjoy the lifestyle together. Begin succession early (purchase off farm investments for non-farming children), keep things clear cut, allow children to follow their passion, encourage them to get a tertiary education and hope they want to come back and farming is viable and profitable. Split assets between children in a fair manner that may not be equal to keep farm viable. • Don't force anything onto someone if they don't want to do it • Wasting time if the business is not profitable. Plan it at an early stage of next g's participation. Make sure there is a commitment ($'s borrowed) and worthy contribution to the running of the business. Have a clear out clause. Regimented communication/management time alloted. Use others to assist/oversee the business (advisory board).

	• Openness, family meetings. Graham Peart quote not to have more than 2 children or be involved with horses of any kind. • Talk openly about transition often. Be ready and encourage next generation to make decisions. Have regular meetings of management. • Seek outside advice, insure all family members have a say & communicate well. • Communication and use of outsiders to steer the path forward. Both generations need to be accepting that change is and will occur • management responsibility at a young age • Consult in a meaningful way with generation G. In our transition which was a decision to sell, we arranged for my children and their partners to take two years to consider and discuss amongst themselves what their wishes and needs might be regarding the farm. We arranged an occasion where they all met together with two different farm management consultants, who had previously been supplied with detailed information on the farm figures. Each of these consultants met on separate occasions with the family without us being present. The family was then given six months to come back to us with some suggestions as to what involvement if any they might want in the far. Because the farm had not accumulated sufficient wealth in my generation to be able to gift or finance family members to retain the farm. All family members had strong attachment to the farm, but all also have high paying other jobs. • 1 Make a will before you are 50. 2.Regularly update it as circumstances change. 3. Be transparent so everyone knows what is involved. 4 Be as fair as you can to all beneficiaries/children without putting the future of the business at risk • Consultation and record what was agreed • Give gen G encouragement. Give them responsibility. Do not tell them how to do things all the time. Wait for them to ask for advice.
29	How do you rate the chances of the business continuing to the next generation? **Answer:** • 75% - 76.19% • 50/75% - 14.29% • 50/50% - 4.76% • 50/25% - 0 • <25% - 4.76% 
30	If the business was/will be continued by the next generation, was/will the division of assets be equal?

	• Equal – 33.33% • Nearly equal – 23.81% • No-where near - 42.86% 

APPENDIX 5: FULL CASE STUDIES

Case Studies Key

Public	C/NC	Number	Name	Description	Quote
N	C	1	Iota	They determined that they weren't going to live like peasants and used their combined skills to follow their passion.	We weren't going to live like peasants
N	C	2	Upsilon	Being an only child helped, but with his father he built the business from a small farm to a truly viable one and the eventual division of family assets amongst his three children will be 40/30/30.	We wanted it to be a fair as possible
N	C	3	Rho	The farm was split in three successive generations. For it to remain viable it needed to avoid further size reduction. There are four children. The family confronted the issues and the split is 79/7/7/7.	If the division was even the farm would be sold
N	C	4	Lambda	The start was modest, we share farmed, worked off farm, invested off farm. The seven children were brought up to expect no handouts. They play together and they have stayed together. The two who farm own the business and some of the land. Most of the others still share in the landownership and want to keep it.	It was a modest start but with share farming, off farm work and investments…
N	C	5	Kappa	Without a succession plan the farm would have been sold. Who would invest in a business with no future?	If we hadn't had a succession plan the farm would have been sold
N	C	6	Pi	After the lean years after wool crashed the shareholders threw down the gauntlet to the directors. Perform or we sell. The business was turned around, several off farm investments were made (unsuccessfully at first) and family members were encouraged to spend time on and enjoy the properties	The family told the directors to 'perform or sell'
N	C	7	Mu	The farm was halved, then again and then again. The current owner and his brother revered the trend and have now split with a viable business each. Over a 20 year period the Mu family has achieved a 14% return to capital	We could not allow it to be halved again
N	C	8	Sigma	Their Grandfather set up the two brothers. The brothers just kept buying more land. Their sons this generation then had to pay for it. More expansion, poor prices and some droughts didn't help. But they were nothing compared to the Swill Franc loan. They borrowed one point five million and paid back three.	Our fathers bought it but we have to pay it off

N	C	9	Epsilon	A strong history of succession done well and brothers, with complementary skills, working well together to build the business, under pins this business well	Dad and his brother always had the end game in mind
N	NC	10	Alpha	They inherited a farm which had been successively cut up through five generations. The business wasn't viable but as stewards they handed it on to the next generation	We were stewards, it wasn't ours to sell.
✓	NC	11	Gamma	He was given no choice and was burdened with the family expectation that he should carry on. But he wanted to give his children room to do what they want. So he and his wife decided to sell the entire seed stock operation.	We wanted the next generation to be free to choose
N	NC	12	Zeta	His grandfather, in order to uphold his position in the community, funded his lifestyle by selling a part of the farm whenever he was short of cash. In addition the old man was dictatorial and pushed his family away only to recall one member when in old age he couldn't manage the place.	They kept selling land to fund their lifestyle
✓	NC	13	Beta	The company battled drought, government, price crashes and each time got back to profit. But when the family lost interest and then lost control of the board, they lost the company.	The family lost control of the board
✓	NC	14	Theta	They wanted to keep farming but it was unrealistic. There were too many shareholders as the shares were handed on from generation to generation. The sale was clever and the business was sold with the value paid for the intangible assets. A family member has remained as manager for the new owners.	There were too many shareholders
N	NC	15	Delta	The three brothers took the business from 3000 to 13,000 in one working lifetime. But they spent 20 years and hundreds of thousands of dollars arguing about whether to break it up. The legal and accounting costs were enormous.	They built it and then spent twenty years arguing about how to cut it up
N	NC	16	Tau	They thought they had succession sorted. The family member who wanted to farm is smart, industrious, works hard, was suitably experienced and educated so he got the job and some of the land. Then he changed his mind.	We had succession sorted. Then the next gen farmer changed his mind

Each of the studies is as continuing (C) or not continuing (N C)

Case Study 1: Iota Family

Business continuing

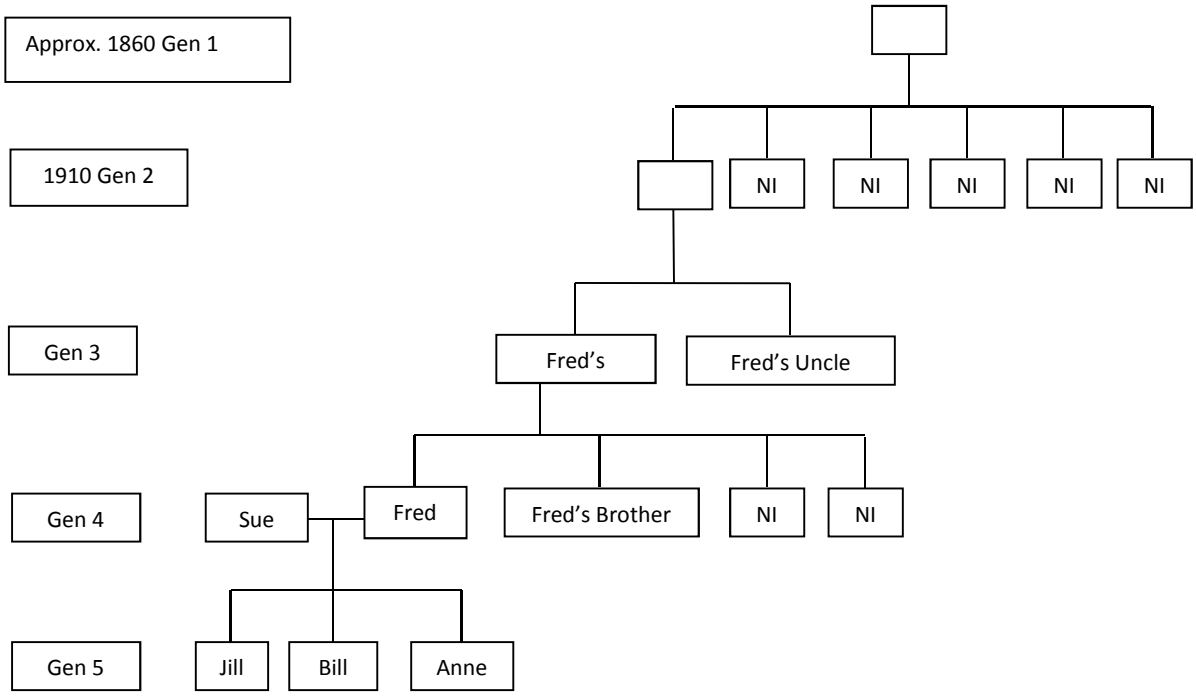
'We weren't going to live like peasants.'

Fred and Sue Iota have built a dynamic business. Fred is the fourth generation of his family to own and operate the home farm. Their three adult children all had post-secondary education and will be able to make a contribution to the business. Two of the children, now young adults, work in the business. The older of the two (Jill) now has a high level of responsibility in the business. Anne is just finding her feet, while their sibling (Bill) has developed a career and is highly qualified in his unrelated field of endeavour.

Over a thirty year period the Iota family have built the business in the high rainfall zone from 500 hectares (ha) to 2,300ha, building the per hectare stocking rate at the same time. The major enterprise is bull breeding and the business runs in excess of 30,000 DSE's. The family has a long, well-handled history of succession and passing responsibility to the next generation.

A genogram of the Iota Family with the appropriate branches is shown in Figure 1.

Figure 1: Iota Family Genogram



*(NI = No Issue)

History

The initial start with Gen 1 (Fred's great grandfather) was a land grant in the late 1860's combined with savings from living frugally. By the time Gen 1 handed over to Gen 2, in about 1910, the area farmed had been increased through leasing. Fred's great grandparents had several children, but only one of the children in Gen 2 married and had their own children.

During their tenure, Gen 2 produced two sons including Fred's father (Gen 3). Fred's father and uncle farmed together from the 1940's to the 1960'sand then split the farm.

Fred's parent's grew the business slightly and had four children. Two (including Fred), inherited the farm and the other two sought careers away from farming and received no substantial inheritance. The growth of the business in Fred's father's tenure was assisted by a substantial inheritance to Fred's mother.

Fred and his brother farmed together and the business grew and shrank over the generations until Fred and his wife Sue, broke away from Fred's brother in the 1980's. The business they developed was destined to become a model which would thrive. Fred and Sue have succeeded because of many factors which will be discussed, but primarily because they recognised that they had complementary skills and were prepared to 'have a go'.

The summary of the business from Gen 1 to the present, including Gen 4 where Fred and his brother split, appears in table 1 (below) and shows that over successive generations, people did work hard to grow the business.

Table 1: Iota

Generation	Period	Farm Area/ha	Children	Source of Capital	Challenges	Business Shrunk/ Grew
1	1859- 1900	1,000	9 – 2 inherited farms, only 5 married	Land grant Frugality, savings	• New country • Isolation • Personal hardship • Rabbits	Grew
2	1900 – 1940	500	2 children survived	No expansion	• Rabbits • War & depression • Seasons	Shrunk
3	1940-1975	Initially 500 bought 400 which Ken took over	4, 2 went into the church, 2 farmed, Larry senior went to the Northern property	Larry Inherited 150ha @ Northern Place Bought with retained profits	• Rabbits • Drought	Grew
4 **4 Fred and Sue**	1975 split-in 1988 1986 - 2017	Inherited 500ha	3, 2 farming, 1 in business	Inheritance	• Drought & seasonal variation • Biosecurity, including pests & diseases	Grew

Current Situation

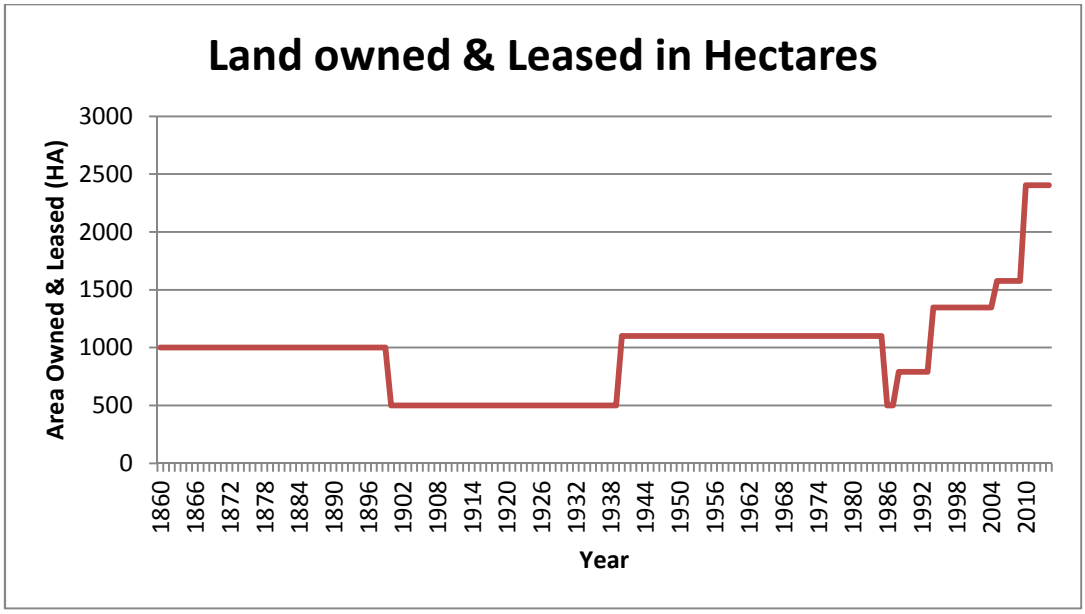
Fred and Sue took over a modest farming business and have turned it into a dynamic business. It has grown from approximately 500ha when they took over, to approximately 2,300ha today and it is still growing. When Fred says '*we were determined that we weren't going to live like peasants*' he is not suggesting that previous generations of the family did. Rather, that from when he and Sue took over, things needed to change, or they would have a peasant like existence. Fred and Sue did change and they will continue to change into the future.

Fred and Sue have worked hard to expand the business within the current generation, as can be shown in Table 2 and Figure 2.

Table 2: Iota Family expansion under the current generation

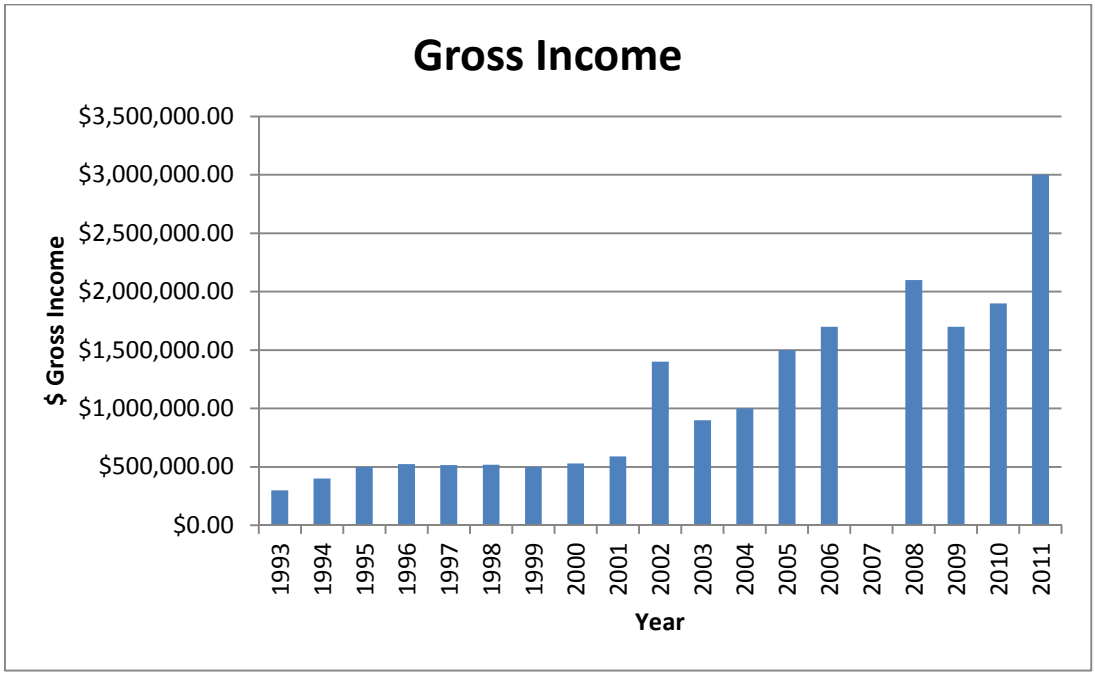
Year	Farm	Ha	Source of Capital	Comment
1986	Home Farm	500	Family	Fred and his brother split the partnership leaving Fred and Sue with 500ha, a house and some facilities
1987	Farm B	290	Family	
1994 1995 2000 2002	Farm C aggregation	557	Vendor and bank	
2005	Farm E	100		Then sold 10ha with the house
2005 to 2010	Leasing	130		Now with the exception of 130ha no current leases
2010	Farm D	323	Bank	
2010	Farm E	505	Partly bank	Further finance from sale of a surplus house and annual earnings

Figure 2: Land Owned and Leased



Over the last 20 years the business turnover has grown from $250,000 to $3,000,000.The below figure shows how the gross income for the Iota family has grown from 1993 through to 2011.

Figure 3: Gross Income



*Note that data was not available for 2007.

The attributes of the Iota business which have allowed it to grow:

The attributes that have enabled Fred and Sue to grow and set up, a viable business to pass on to the next generation, are that, as a couple, they:

1. Are prepared to 'have a go';
2. Are highly skilled and the skills of both are utilised within the business;
3. Have a compatible attitude to debt;
4. Are prepared to do things differently;
5. Focus on the customer;
6. Seek external advice;
7. Allow the business to grow at its own pace;
8. Employ the right people in the right positions;
9. Bring family members into the business; and,
10. Treat land as the basis. Keep the capital together.

Prepared to 'have a go':

Fred and Sue have both been prepared to 'have a go' and believe that you have to keep driving the business to ensure success.

> **Fred:** 'You've got to think about providing for the next generation. And so you can't actually have the view '*Oh, when we get the debt paid off we'll be right'*. You've actually got to keep pushing hard. There are family farms around here where people are doing well and it's always because they think outside the square and they push hard and they work hard. And I think in other instances [where the farms have been sold] the people didn't actually work very hard.'

Fred went on to describe many situations where people were hanging around the house, or were involved in many off farm activities and as a consequence employed people to do the physical work. To ensure success, it is important in any business 'to work hard and to 'have a go'.

Highly skilled and the skills of both, are utilised within the business:

Fred claims that he didn't know much about the cattle business when he started. He was interested in cattle, as was his father, but he didn't understand anything about genetics, breeding or using predictive tools such as EBV's. That was at the beginning.

Fred has developed a keen interest in and is now knowledgeable about, seed stock. He has a good working knowledge of pastures and grazing and is a first rate stockman.

Sue, as well as sharing a passion for breeding cattle, understanding genetics and breeding, has skills which are complementary to Fred's.

> **Sue:** 'For a short while I worked off farm but I thought I should be using these skills [administration and marketing] in this business rather than outside. There are a lot of couples that pursue different interests and when they do that, they miss the opportunity we have captured.'

Together, Fred & Sue combined their skills and knowledge to promote and grow their business.

A compatible attitude to debt:

Fred and Sue had a similar attitude towards debt. They were not afraid to take risks when it came to loans and work hard to ensure that they got on top of debt. Sue reflects on their attitude to debt and purchase of Farm C:

> **Sue:** 'When we bought Farm C [the 557ha property] we really extended ourselves. It was a big piece because we basically doubled our capacity and hit the drought…'

Prepared to do things differently:

The business return on capital over the last few years is a double digit number. Fred and Sue discuss how they have taken a different approach to grow their business:

> **Sue:** 'When you include the land it was 17% per annum over the twenty years.'

> **Fred:** 'Since 2010, we've bought four places and prior to buying those places, we leased nearly 800ha. That was another significant thing, but we have built our livestock numbers up. None of the country we have bought has been a bargain, some has been slightly ahead of the market. Our business model does increase costs, it increases cartage, labour by one and requires a lot more mental discipline.'

When questioned if this was opposed to having the same area of land in one parcel, Fred affirmed:

> **Fred:** 'Having six parcels of land does make it easier to pass it on. Our business model is good because it takes the pressure off the balance sheet and we keep growing a little bit.'

Fred and Sue leased country and built up stock numbers to ensure they had stock ready to graze country when they purchased it. Their business model has ensured a viable farm that can be passed on to the next generation, as a whole, or in parts.

Focusing on the customer:

Most people who are in the bull breeding business will tell you they focus on the customer. But Sue and Fred really do. They surveyed, they asked questions, they encouraged feedback and as result of the information received, they changed many of the ways they prepared, presented and sold cattle. This attitude allowed Sue and Fred to become trail blazers.

Seeking external advice:

Fred and Sue attribute much of their early success to a private consultant who continually challenged them. Without that relationship and continual challenges, they may not have been able to see their potential. They still seek external advice, but these days they get experts to look at specific aspects of the business, rather than retaining one generalist consultant.

As with many businesses the pupil outgrew the ability of the master.

> **Fred:** 'Our consultant kept saying [when we got to a certain level] you can't breed anymore bulls as you can't cope with what you've got. I got sick of listening to this and although he had been my greatest mentor in agriculture, after ten years we wanted to do our own thing.'

Allowing the business to grow at its own pace:

Fred and Sue understand the importance of letting a business grow at its own pace. They did not purchase paddocks next door, but rather grew the business gradually when necessary. Fred reflected on the purchase of their last block of land, stating that he 'wasn't very interested, but our spring cut out and it had a heap of grass on it. We had 1,000 cows over here and the stocking rate was about 14 DSE's, which was outside our comfort zone'. With Sue away at the time, Fred had an hour long phone conversation [with Sue] and made an offer the following morning. He bought 1,500 tonnes of feed. Sue did her bit and ensured their daughter Jill's name was on the title. Fred emphasised the importance of having a good cash

flow for such business ventures and reflected that if things had have gone pear shaped 'you can pick things up quickly, if you've got a good cash flow'.

It is important to note that Fred and Sue were prepared to buy land when it was available and make it fit within their current enterprise. Fred noted that it takes confidence, 'making it fit [is important], but whether, or not, you'd have the confidence to do it, if you didn't have a business that had a really good cash flow [is a different story].' With stock numbers a major trigger behind the Iota family purchasing additional land, vendor terms have been essential to ensure a successful purchase.

Employ the right people in the right positions:

In an industry renowned for underpaying, under rewarding and under promoting, Sue and Fred have ensured that they employ suitably equipped people and treat them well. Their key staff have appropriate levels of responsibility and delegated authority.

Bring family members into the business:

Fred & Sue understand the importance of inspiring and involving the next generation at an early stage.

> **Fred:** 'We started with a tiny bit, but now we have got a little bit of momentum. If people want one or two of their children to farm they have got to start thinking about it early. The mistake that most people on the land make is that leave it too late to grow.'
>
> **Sue:** 'We've always said to the kids that the land is not a cash cow, the land is just the framework upon which the business sits. The cash cow is actually the business so don't ever see the land as some sort of windfall because it's not.'

Treat land as the basis. Keep the Capital together:

Sue and Fred don't want to put too much pressure on Bill (their second child) to decide about his involvement in the farm.

The Last Word:

The last words in this study come from Fred, who emphasises the importance of keeping a positive outlook, working hard to achieve business growth and planning early to ensure smooth succession.

> **Fred** 'I think the thing that holds people back is negativity. I called in to a bloke at about 7 o'clock in the morning a couple of weeks ago. He was in bed and his wife, about my age was all negativity. 'Oh he's not up, he's got a bad back'. His sons got the same problem, the seasons crook. But it's not that bad because they've got really good country. It would be a very valuable asset they could do all sorts of things…
>
> I know a young lady who decided that she wanted to come home. But her parents had made no preparation because they were of the mindset that these young people are not coming on the land. It was too late.'

Watch the Iota Business with interest. With Fred and Sue at the helm and the next generation starting to take control, fasten your seat belts. That 17% return to capital will be hard to sustain, but they have every chance of doing it.

Case Study 2: Upsilon Family

Business continuing

'We wanted to be as fair as possible.'

A third party looking over the fence at the Upsilon family farm could easily be dismissive of the achievements. Jim, as the current owner and an only child, tells the story: *'we decided to provide a viable farm for one child and treat the others more or less equally. We wanted each of our three children to get a start in the same way that I did.'* Jim was careful in his approach to succession, buying land and building off farm assets to ensure smooth succession.

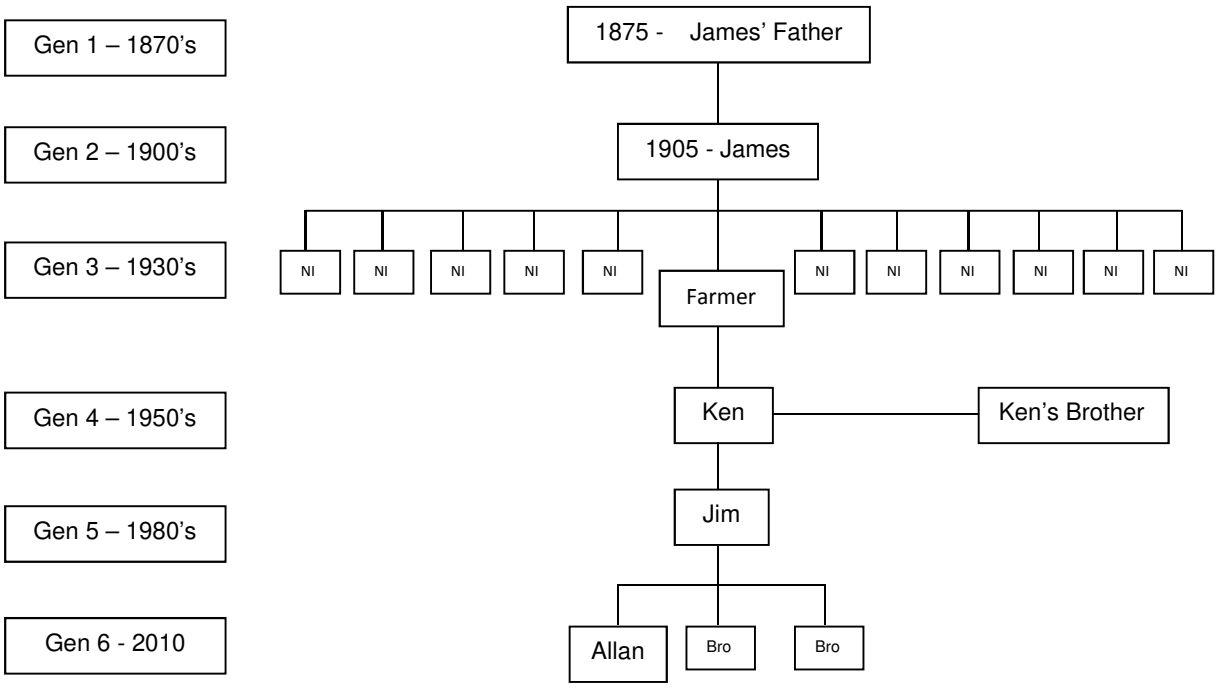
The Upsilon family have owned land and farmed since 1875 and the business has managed to survive and now thrive. Allan, Jim's son, who has a desire to farm, is set to have a viable farm and his siblings are set to get an almost equal share in inheritance. This business hasn't suffered huge financial pressures other than the wool collapse, drought and the cattle collapse and has steadily moved forward.

History

The inaugural capital to purchase the original 1,214 hectare (ha) farm came with the first settler of the family (James) in 1875. James travelled with his father from England, married and had twelve children. James's eighth child took over half the farm in 1905 and handed it over to two of his children, including Ken (Jim's father). Ken originally had 186ha and during his life, working with Jim, handed Jim ownership of 930ha. In addition Ken had set himself up so he had a house in town and was independent financially.

The Upsilon family genogram showing the people involved is shown in Figure 1 below.

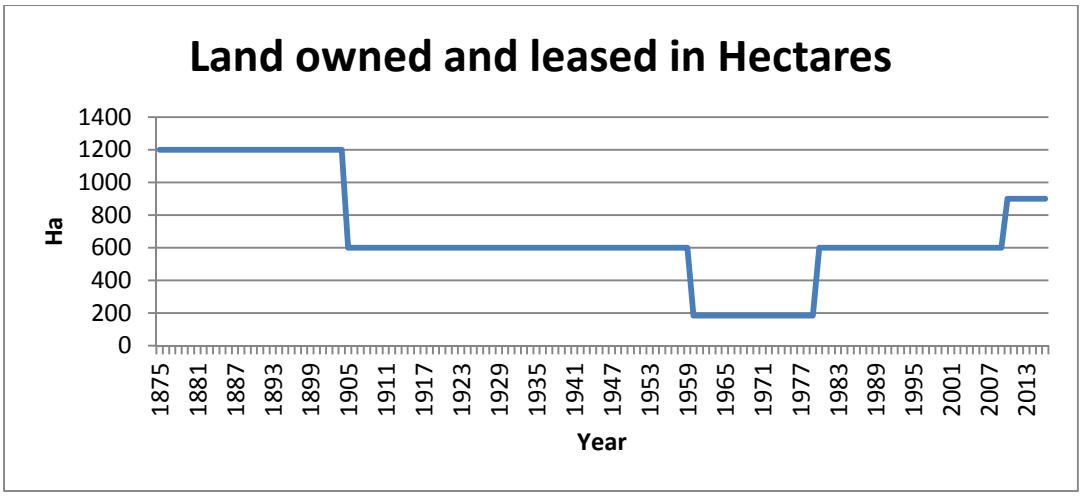
Figure 1: Upsilon Family Genogram



*(NI = No Issue)

Figure 2 below shows the land owned and leased by the Upsilon family over the generations.

Figure 2: Upsilon Land Owned & Leased in Ha



Why has this business been successful?

There are several important aspects and attitudes of the people in the business which have contributed to its success. They maintained steady growth without any mighty leaps. They

maintained a solid return on capital, but didn't have any sudden windfalls. Those attributes that have helped with their business success include:

1. Ability;
2. Respect;
3. A determination to run a profitable and expanding business;
4. A willingness to let go;
5. A determination from each of the older generation (in turn) to hand over;
6. Investing off farm.

Ability:

Ken, who remained actively involved in the farm business until well into his eighties, was a hard worker and was always looking for a better way of doing things. As he gradually increased the area of the farm, for a long time he ran wethers. This gave him maximum stocking rate with maximum flexibility. It also allowed him the time required to improve the property. Those improvements included fencing, water, yards and buildings. It was unlikely that any aspect of the farm was going to hit the front page of the paper but Ken and Jim just kept at it.

Respect:

In many farming families, intergenerational competition, an uncomfortable employer/ employee relationship or the pursuit of incompatible goals causes friction and, in extreme cases, a dysfunctional work/family situation. The Upsilon family managed not only to avoid those situations but developed a relationship which is built on trust and mutual respect.

> **Jim:** 'I had worked on the farm, on and off since I was ten, but I returned here approximately aged twenty. Ken (Jim's dad) and I always worked quite well together, decision-making was always talked out, both views were given a good airing and most of the time we had a compromised decision. Sometimes in the earlier years [my] views were only considered but not put into practice. And then further on as we went on I managed the stock and finance part and Ken worked with his passions of engineering and a little bit of cropping. It just sort of evolved as time when on.'

There was turning a point when Ken and Jim looked at each other and Ken said, '*Well who's running the show?*'

> **Jim:** 'There was a decision that had to be made, but both of us were standing there looking at the problem and no-one was going to address it. I think he was giving me the opportunity to address it, but I was probably standing back thinking I'm not going to step in on what you normally do in your area- sort of thing. So he was starting to withdraw and I was given the opportunity to sort of go ahead.'

The question raised by that situation is whether Jim stood back because of respect, or uncertainty.

> **Jim:** 'Probably more respect. I probably knew what was needed to be done, but I didn't want to push him away. I was just waiting for what normally happened.'

Although the relationship between Jim and Allan (his own son) is different from the relationship between Jim and Ken, it has the same essential elements, respect and mutual trust.

A determination to run a profitable and expanding business:

Ken and Jim were both determined to run a profitable and successful business.

> **Jim:** 'Ken had a good business sense and [that] he just wanted to keep establishing the farm, holding it together and running a profitable show.'

This typically modest statement ignores the fact that, between them, Ken and Jim turned a very small business into a viable business with significant off farm investment.

In 1955 the farm was worth about $50/DSE with an inflation multiplier of 15. The original farm was 186ha and ran 460 sheep. That would value the land at $345,000. Using the same formula today (930ha* 9.9DSE * 600/DSE) the land is worth $5,900,000. The effective annual interest on a compound basis was 4.69% which is very solid. In addition to the value of the land the business has built off farm assets and stock and plant, which add a further $2,000,000 to the balance sheet. Assuming that in 1955 the farm, stock and plant were valued at $400,000 (2017 dollars) and the total value is now $8,000,000, the annual capital growth over sixty years is 4.9%. At the same time the farm has kept and educated two families.

A willingness to let go:

Ken understood the importance of involving the next generation early and was willing to let go.

> **Jim:** 'It was very early in the piece I was given the management all the stock and all the finance.'

This early hand over of responsibility is another recurring theme which differentiates successful business with those that struggle. By Ken showing that he had confidence in Jim very early in Jim's time on the farm, Ken helped Jim to develop the confidence which is an essential feature of a successful Farm Manager. No sudden moves, no big changes, simply a gradual handover.

A determination from each of the older generation (in turn) to hand over:

Ken had been able to hand over to Jim without Jim taking on any debt. Because he has three children Jim wasn't in the same position. So, in order to ensure that the non-farming children started to get some advantage from their eventual inheritance, Jim handed land over to Allan who was then able to borrow to start to buy out his siblings.

This strategy achieved four important imperatives:

1. That the non-farmers started to receive part of their eventual distribution.
2. That neither Jim, nor the farm, had to find the money.
3. That Allan suddenly understood the responsibility of having debt and the work needed to pay the interest and eventually pay off the debt.
4. The non-farming children understood that their brother was buying them out.

Jim confirms the importance of an understanding of debt.

> **Jim:** 'I didn't realise how beneficial it would be to Allan to get debt and then pass that cash to the off-farm children. I didn't realise how much it would mean and how well they've used their opportunity. They have an entry into the housing markets and now they are very established.'

Investing Off Farm:

Investment has ensured that about 25% of the family assets are now off farm. Jim recalls their strategy, where they '*used the profits from the mid 80's and invested off farm rather*

than trying to increase size of farm has been a deliberate strategy.' This achieved several aims.

1. To have a spread of investments from a risk management view point.
2. That the farm remained manageable without taking on too much outside labour, whereas, if the investment had been in farming land only, the management would have required more labour.
3. That there was no guarantee that any of the boys would want to become farmers. The off-farm investments have kept the farm more manageable and given a much greater set of choices when it came to succession planning.

A work in progress:

Jim and his wife didn't expect that any of the children would want to take over the farm.

> **Jim:** 'No I never expected that anyone would stay on then. We prepared them all for life outside the farm, but it was always open if one, two or three wanted to farm. But it became obvious when Allan was mid-teens, he could have been the only one that would farm.'

The split of assets between the three siblings will not be entirely even.

Allan, the farmer, will end up getting 40% and the other two siblings will receive 30% each. That decision was made because if Allan had received an equal share then the farm may not be viable. Certainly, his equity would have dropped well below 70% and in an enterprise that is almost entirely dependent on grazing, the percentage was considered too risky. In effect, there were two starting points in the plan. One was 'what does and equal split look like' and the other was 'what is required to have a viable farm'. The 40/30/30 split was a reasonable compromise between the two points.

> **Jim:** 'I didn't think we could achieve a viable farm and an equal split. So we had to build in some parameters where you could make it happen. Allan gets land but he doesn't receive any cash so he can't have any personal indulgences as early in life, whereas his bothers can. They can purchase houses or use their cash. There were no strings attached.'

Over a period of two years Jim and his wife worked with an external succession planning specialist. The plan was devised with the full knowledge of the whole family. All the family members were consulted, had the process explained to them and all had opportunity for input. When the plan was ready for implementation Jim arranged to have a family meeting when they were all at home. He chose Christmas morning.

> **Jim**: 'I called them together to summarise the plan. They had all been involved, they all understood it. The eldest said '*Dad, you can't have your moment of fame, we understand it, we're all over it*'.'

All over it, did that mean sick of it or that they understood it? The latter.

The Upsilon family succession is still a work in progress. The first tranche of funds has been paid to the non-farmers and the farmer has a good stake in the business and a growing stake in the land. All the children now have partners and the family is growing. There is a commitment from Jim and his wife to keep gradually handing over ownership to Allan and at the same time for Allan to use the equity to borrow to buy out his siblings. As with many plans, the core of the plan remains solid but the timing for the next move is uncertain.

> **Jim:** 'It's just where we go next, you know do we make another step or do we let time take its step, or do we start specifically willing land to Allan?'

That question is partly a question for Jim's lawyer. But even in a family where relationships are very solid there is always a risk in handing over ownership via a Will. Wills can be challenged. It is true that there can also be challenges where the assets have been handed over during the lifetime of the person who gave them. But if the appropriate agreements have been entered into and the work has been professionally and completely done, a challenge is much more difficult. But if the work is sloppy, hasn't been 'road-tested', if all the documents, including Deeds, Agreements, Powers of Attorney and Wills, aren't 'harmonised' then assets passed on during the givers' lifetime can be challenged.

If history is a guide the Upsilon family will do a thorough job.

Case Study 3: Rho Family

Business continuing

If the division was even, the farm would be sold.

Whilst it is fashionable to expect that a family's resources will be split equally amongst the children, in many farming families that would make succession impossible. In the case of Rho family, where the farm had already been split at the changeover between three previous generations, the farm would be un-viable if the split was even again.

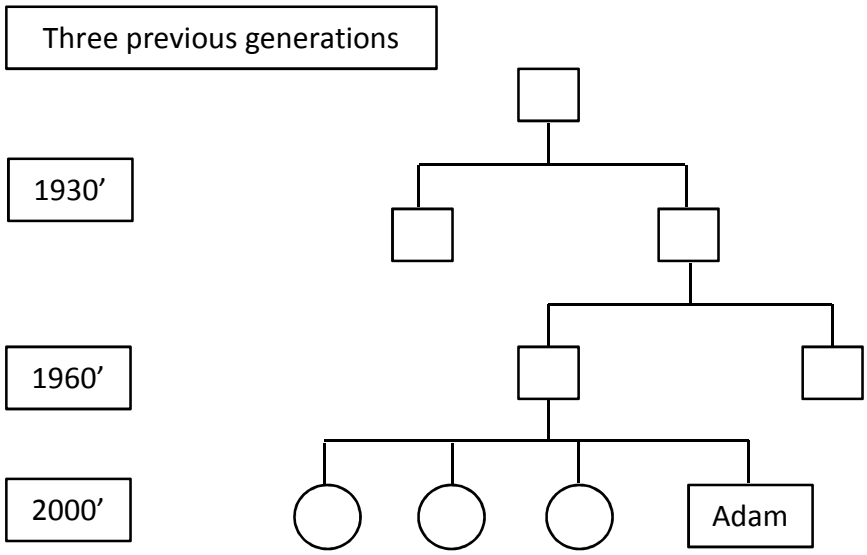
History:

The Rho farm is part of the original family 'Run' which was acquired in 1883. There are strong emotional ties. For Adam, the farmer in the current generation, business viability is as important as the history. With the farm on its third split, Adam outlined the history behind the splits in each generation.

> **Adam:** 'The first split occurred in generation three, my grandfather and the second split was in the fourth generation, between my father and his brother. The property was about 4,000 hectares (ha) originally, but now I have 1,400ha. Some of the reduction in area was through acquisition for soldier settlement and the others were to allow brothers to farm independently.'

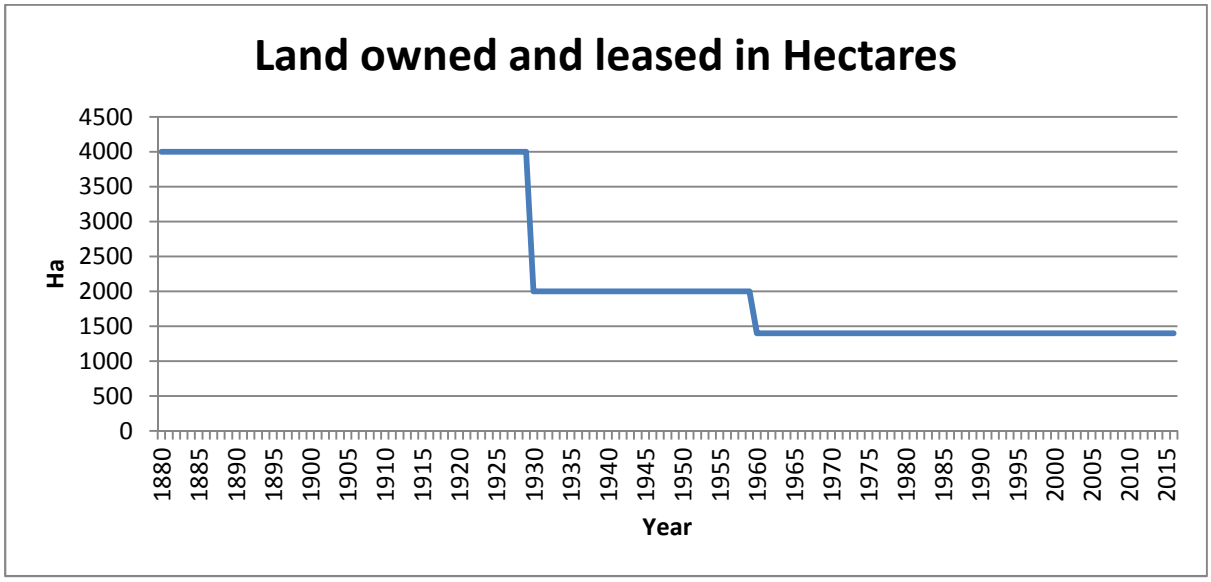
The family genogram below details the people involved in the Rho family story.

Figure 1: Rho Family Genogram



A farm of 1,400ha is viable and likely to remain so. However, in a family with four children where the bulk of the family assets are invested in the farm, an equal split would have left Adam with less than 300ha plus the stock and plant, or around 25% equity. Figure 2 (below) shows the land owned and leased by the Rho family since the farm was acquired in the 1880's and highlights the split in each successive generation.

Figure 2: Rho Land Owned and leased in Hectares



A story of Succession:

Adam went to University to study business and completed an Ag marketing course. He travelled to America to work on farms and later in the marketing department for a seed company. It was after this overseas stint that Adam returned home to work on the family farm. The Rho family had some hard decisions to make when it came to succession planning and it was five years after Adam had returned home that the Rho family started to examine a viable succession plan.

The family met and discussed the thorny issue; an equal split would lead to an unviable farm, meaning the family property would need to be sold. In preparation for succession, Adam's parents have acquired some real estate that the three non-farming siblings will inherit. It is unlikely that Adam would have remained farming with the prospect of the farm becoming un-viable. In that case the farm would have been sold and his parents, who wanted to remain

living on the farm as long as possible, would not have been able to do so. While Adam's sisters, all three of which have successful independent careers, are happy with the succession plan and are set to inherit property that their parents have acquired, the future is still uncertain. Adam recalls the family discussion:

> **Adam:** 'We sat down and talked about the future. It isn't all signed which makes me feel uncomfortable. I'm not totally worried about my sisters, but you don't know what their partners could put in their minds - we shouldn't think like that, but you do think about it.'

The conversation in the room was blunt and all cards were laid on the table. With a young family, Adam did not want to risk their future and effectively told his sisters that.

> **Adam:** 'If you all want your equal share, we will just have to sell it. It was as blunt as that. Just tell me now, because I don't want to get twenty years down the track and then get hit with this. That would be no fun for me, I have little kids.'

But what if Adam's sister's wanted a larger share of the assets? Thankfully, it did not ever get to that point, but if his sisters had wanted a larger share (say 40%), Adam would have sat down and worked out whether a larger split with his siblings would have been practicable.

> **Adam:** 'If I worked it out and it was financially unviable, then that is a bad business decision. So, you might as well get out. If you got money back out of it, invest that and do something and go and work and find another field. I couldn't tell you an exact percentage as we never got to that point.'

To ensure an inheritance for their three daughters, Adam's parents have built their off-farm assets (which amount to around 20% of their total assets) through good farming practices and buying and selling land. Adam recalls that they have *'worked hard to get it'* and they have ensured that there is something for their daughters to inherit.

Adam is working hard to ensure that he runs a successful business and grows assets further for the future generations. Operations on the Rho family farm have changed a quite a bit since Adam returned home. The number of enterprises has been reduced with the cattle sold and a heavier focus on cropping, grazing and livestock trading. The business has also gone into trade steers, keeping them for several months and selling depending on the season.

As in any business, change is inevitable and since his return home on the Rho family farm, Adam recalls some of these changes and how much harder it is to save money in the current climate. Cost of production is a major factor and Adam compared the cost of inputs when he came home about fifteen years ago with those of today.

> **Adam:** 'The purchase of 100kg of MAP fertiliser was $97 per tonne and now it is $750 . We got $245 for wheat and this year I got $253. I came across these recently and reading them actually made me feel sick.'

Unsurprisingly, farming is getting tougher for the Rho family. They do not have spare money like they used to. Adam recalls that when he first came back to the farm '*we always had a little buffer all the time. That's now gone. Every year I am on budget with my costs so then we're at the lap of the gods as to what we get at the other end. We're price takers not makers*. The situation is getting harder.

It is hard to say if Adam's children will want to farm in the future. He has one son, aged 10and two daughters, aged 8 and 6. Adam is unsure of his position should one child want to farm, or maybe even all three.

> **Adam:** 'To tell you the truth I don't know. That is a tough question. I guess I'd have to take a step back and look at the whole picture, including the financial side. This wouldn't be for probably twenty years down the track and the farm may not be in a position or viable to run two operations. We might have to bite the bullet and sell the farm.'

Adam recalls his parent's decisions around the percentage split with 80% to Adam and 20% shared between his three siblings.

> **Adam:** 'My parents just basically said that if you [my siblings] want your entire share we will have to sell it, pure and simple and Adam will have to go and do something else. That's it in a nutshell.'

That was a choice that Adam's parents were not prepared to make. But Adam will be well advised to secure the ownership to ensure that the land isn't handed over to him via a Will. Wills, when challenged can bust the toughest nutshell. If the seeds of discontent are present in the family, handing over the farm via the Will is a good way to enable them to flourish.

The lessons from the Rho family are:

1. Individual families have the right to choose a course which suits them.
2. In this case fair does not mean equal.
3. The family 'bit the bullet' and decided to split the assets 80/20 soon after the farming son committed to running the farm.
4. There is some unfinished business in the Rho family which won't be finished until Adam's parents die.
5. For Adam, relying on his parents Wills may be a dangerous choice.

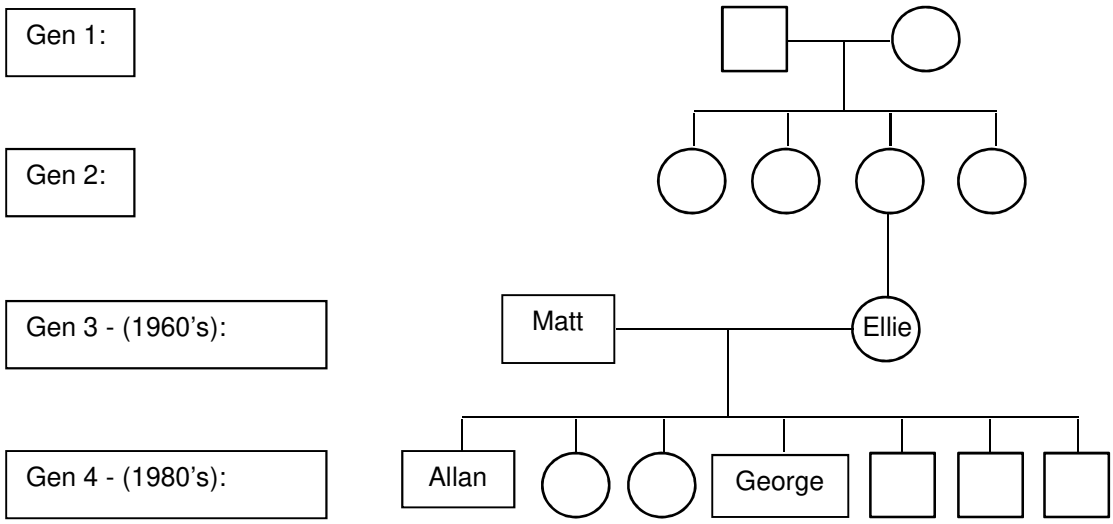
Case Study 4: Lambda Family

Business continuing

It was a modest start, but with share farming, off farm work and investments…

The people in this case study are Matthew and Eleanor Lambda and two of their children; Allan and George. The remainder of the children, all part of a happy extended family, are important in that they have accepted the 'family-rules'. Most still have some land ownership.

Figure 1: Lambda Family Genogram



In the early 1960's, Matt and Ellie Lambda settled on a block of about 1,316 hectares (ha). They were the third generation of the family to own the place and it was handed down more or less debt free. Matt owned a small farm in another district on which he ran a few hundred sheep. His main source of income was seed harvesting.

The property, Home Farm, has an annual rainfall of 500 to 550mm and is reasonably close to a major centre. When Matt and Ellie took over the place it was effectively three paddocks, had no improvements, no buildings, poor water and was infested with rabbits and wattle. In 2016 dollars it was worth about $700,000. The place was battling to run 1,000 DSE.

Today, Home Farm is the centre of a farming operation which covers 3,293ha of owned land, plus 2,162ha of leased land. The family now run in excess of 30,000 DSE and in addition trades and finishes up to 4,000 prime lambs. As well as expanding the farming operation the family

had significant off farm investments. In addition to the farm and off farm development, Matt and Ellie had a large family. The adage, 'the family which plays together stays together' is applicable to the Lambda family and is an important factor in its continued success.

The business is now jointly owned and managed by two brothers, Allan and George and along with most of the rest of their siblings (six in all) are joint owners in some of the land. One sibling chose to sell their allocated share and this was managed amicably. The siblings who are involved in land ownership are happy with the return and have no plans to sell. There are mechanisms in place to ensure that if at some future time any do want to sell, that a valuation can be agreed. There are also restrictions on the number of siblings who can sell at any one time, the time between sales and an agreement that the sales must remain within the family.

Before describing the steps that the family took to achieve this remarkable record of growth and family harmony there are some important principles and attitudes which Matt and Ellie set in place. These principles and attitudes were about how the family and the business operated.

Matt and Ellie had four guiding principles and the next generation has added a fifth:

1. Everyone is expected to work (and work hard);
2. Whatever we have will be divided (absolutely) equally;
3. Don't expect to be given money;
4. Invest off farm;
5. Be prepared to do a deal.

Everyone is expected to work (and work hard):

'We were all expected to pitch in and help'.

As Allan and George tell the story, everyone was expected to work when time allowed. During slack times on the farm as young adults they might be taken to a development site to help out. There they might act as builders, labourers, or in general clean-up tasks before painting. The overriding principle was that if we had time on our hands Matt would ensure that there was something useful to do.

Whatever we have will be divided (absolutely) equally:

'The starting point was that family assets would be divided absolutely equally'.

The statement above, coming as it did from Mark, one of the siblings who has a city based professional career, was the catalyst for making this business interesting as a case study. Whilst it is easy to say, 'the asset division will be equal', it isn't easy to achieve that and pass on a viable farm. Later in this study we will explore how it has been achieved.

Don't expect to be given money:

One of the recurring themes in businesses where succession is achievable, is that families have managed expectations. In Ellie and Matt's case this went further than '*You will all be treated equally'* to '*Don't expect to be given money'.* The rules of the family were clear. We will support you until the end of your school education and then it is up to you. There was no expectation that Matt and Ellie would contribute to university fees or assist with buying houses or starting business.

But there is a difference between '*It's up to you'* and '*You're on your own'*. The reality was that although each of the children understood that there were no free lunches, if any really needed assistance, it was forthcoming.

Invest off farm:

The primary area of investment, at least initially, was to buy residential land and develop it. That strategy allowed Matt to get leverage on the investment and add value by doing much of the work. Although not a builder, Matt understood how and was capable of, doing all the site preparation, digging and pouring foundations and assisting with a good deal of the construction. Some of this was done with farm (and later family) labour.

Be prepared to do a deal:

This principal of doing business had a subset; which is, '*and leave something in the deal for the next bloke*'. There were several occasions where the preparedness to '*do a deal*' was probably the difference between a go/no go. When both Allan and George, who were married with their own children, were working out how to provide certainty for each other and their immediate families, they put a deal together which involved swapping land. They wanted to ensure that they each owned the house and land where they live. Unless they had entered the negotiation with an attitude of give and take, they would not have reached an agreement.

Another example is when they (Allan and George) were negotiating to buy Farm C. During the negotiations, the vendor, whose business was in a '*distressed state',* dismissed the agent acting on his behalf. Allan worked hard to stay in the deal and managed by working with both the dismissed and the newly appointed agent to buy the property.

The business now:

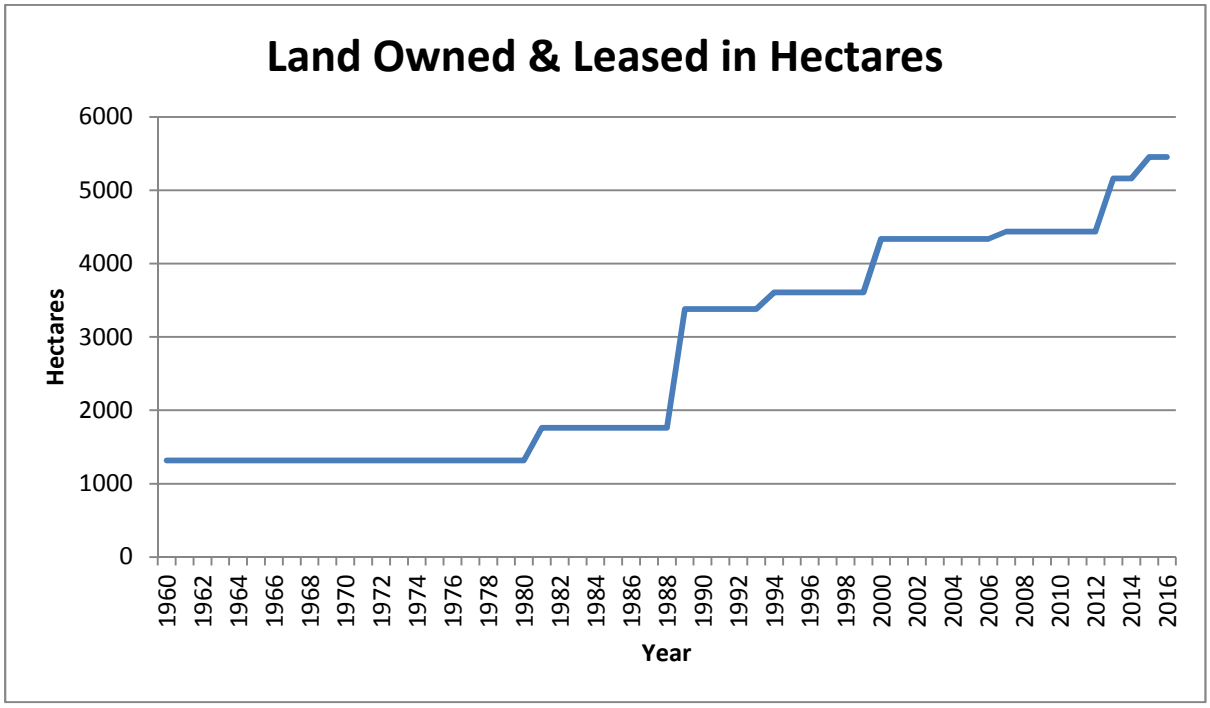
George and Allan and their families own the business. That is the stock, plant and contracts to lease land, both from the family and from third parties. They also own, partly as individuals and partly together, all but the 1,200ha which is jointly owned by them and their siblings. The farming enterprise alone is worth $20,000,000.

Table 1: Lambda Record of Property Purchases

Property	Year Purchased	Area Acres	Area Ha
Home farm	1960	3,250	1,316
Home farm addition	1981	1,100	445
A	Leased 1989	4,000	1619
B	1994	550	227
C	2000	1,800	728
D	2007	250	101
E	2013	1,000	404
F	Leased 2013	800	323
G	2015	180	72
H	Leased 2015*	544	220
		Total	**5,455**

*Irrigated land

Figure 2: Land Owned and Leased in Ha



How did they do it?

There was no sudden change. The growth was gradual. At the point when Allan came home in the mid 1980's Matt had developed the pastures, subdivided, put in water and built a decent house, shedding and yards. In the early days he carted and spread the super himself. He had also established the pattern of active off farm investment.

Allan worked both on farm and off farm, eventually managing a small farm for a third party and leasing various parcels of land on his own account. Matt was surprised when Allan was about to get married that he (Allan) asked for a written agreement which gave his wife surety that if anything happened to him (death or permanent disablement) that she could remain living in the house for a predetermined period. Matt was surprised, but he agreed.

Later, when George had been home for a few years and both George and Allan were in a position to buy some land, the first priority was to buy the land where they lived. The catalyst was a compulsory land acquisition. Allan and George recognised this as an opportunity to rearrange things and working with Matt and a city-based brother, they devised the plan which

started to separate the business from land ownership. This allowed them to expand by buying more land and leasing and securing, the non-farming member's investment in family assets.

A technique that Allan and George employed constantly was to build up livestock numbers, making room by leasing and then borrowing heavily to buy land. This technique provides two advantages. First there is the advantage of reduced taxable income because of a reduction in stock sales and secondly when land is purchased, they already have the stock to run on it.

The purchase of Farm C in 2000 is typical. They had the stock and the deposit. Matt agreed to act as guarantor and they persuaded the bank to lend the money. It was a good decision. The farm for which they paid just under $1,000,000 is now worth $4,500,000. Given that improvements and interest were paid for out of the earnings from the farm, a multiplier of 4.5 in sixteen years is very solid.

Where to now?

The challenge for Allan and George is that they have been so successful, the business has been performing so well and paying a respectable lease figure to the non-farmers, that when they (the non-farmers) add the capital growth, they are very comfortable with the return. So comfortable that nobody wants to sell.

It is most likely that in the foreseeable future, as Allan and George's children start to make career choices, that the issue of the non-farmer siblings will become important. At the moment there are five siblings who jointly own 1,200ha. That is manageable while the shares are owned by the siblings. But as the siblings pass their share to the next generation, if they are allowed to pass them on in parcels to each of their children there could soon be twenty or more shareholders.

Moving ownership from siblings to cousins will be a new ball game but the family is following the 'Family in Business' model shown earlier in this series.

Case Study 5: Kappa Family

Business continuing

'If we hadn't had a succession plan the farm would have been sold.'

Rob: 'If we hadn't started a succession plan Rob Jnr would not have come home. Without him here we would not have increased production and without that increase we would have ended up selling the farm.'

Rob is the fourth generation of his family to own the farm. It took about two years from the time Rob and Diana Kappa decided to do something formal about succession, until they 'seriously' started by engaging a professional to assist them.

In addition to the family farm on which they lived, Diana had an interest in some farming land handed down from her family. From the time they approached the professional to assist them with a succession plan until they had agreed on the plan, was a further five years.

From the very beginning Diana had insisted that the eventual total distribution of family assets had to be fair. Both their two children had spent some time working on the farm and either could have taken on the responsibility. At the commencement of the planning process Robert Jnr. was working as a tradesman interstate. His sister Rosemary was working locally.

Over the years Rob had put together a portfolio of residential rental properties partly in the nearby town and partly in a capital city. The debt on all assets was about 28% and the proportion of off farm assets was about 27%.

During the formation of the plan there were many occasions when it appeared that some of the off-farm assets would have to be sold, but Rob was dogged in his determination to hang on to them.

The family set five goals for the plan. They were:

1. Maintain family harmony;
2. Ensure the final distribution is fair;
3. Build the business to ensure higher cash flow;
4. Keep at least some off farm investments to provide retirement income; and
5. Build a new house for Rob and Diana.

Although there were times when, due to tough seasonal conditions, it seemed that some off farm assets may have to be sold, the basic goals didn't change.

Maintain family harmony:

This was agreed by all, but really driven by Diana. At times it wasn't easy. Robert Jnr. and Rosemary were both in relationships and the family needed to accommodate that situation. The family made the decision that both, the discussions and the decisions, relating to the plan would be on a 'No DNA, no say' basis. This worked well for them. The underlying factors which enabled the family to work through the process were that they do really care for and respect, each other and that they 'play together'.

The push to sell some of the off-farm assets came from Diana. Her motivation was to ensure that in taking on the farm, Robert Jnr would not be too burdened with debt and that he would have a family life.

The fact that the family plays together, that it takes holidays together and all the family enjoy each other's company, has also been a big factor in ensuring success.

That doesn't mean that the process hasn't been stressful, or that emotions have not run high at times. Both stress and emotion have surfaced, however on each occasion the family members have parted amicably.

Ensure the final distribution is fair:

Very early on in the process Diana wanted to know '*What is fair*?' The family agreed that it would not be possible to keep a viable farm, have sufficient investments for Rob and Diana to retire and to provide an equal share for Rosemary. The family realised that an equal distribution between Rosemary and her brother would render the business unviable. Equally, if the farm was sold in the near future and funds put aside for Rob and Diana to retire, the total eventual distribution would be reduced.

With Robert Jnr. taking on the debt and some future, paid employment commitments to his father, the eventual split between him and Rosemary will be 60/40. The family has agreed that this is fair.

Build the business to ensure higher cash flow:

There was a period when it seemed unlikely that Robert Jnr. would come home and farm. During that period, which coincided with the effects of the millennium drought, development (particularly pasture development) slowed down. Father and son accepted that they would have to lift productivity to create cash flow and that the business had the capacity to achieve higher profitability.

Together, they enrolled in courses such as 'Making More Money from Sheep' and 'Lifetime Ewe Management' and in a very short time span lifted the production capacity of the farm and as a consequence the cash flow.

Keep at least some off farm investments to provide retirement income for Rob and Diana:

In business there are 'Good Decisions' and 'Right Decisions'. Consequently, it can be argued that there are 'Bad Decisions' and 'Wrong Decisions'. Only hindsight can tell which category a decision falls into. Given the cash flow situation at the time, when it was first suggested that some of the residential rental property should be sold and Rob doggedly refused, it looked as though that was a bad decision. But what appeared to be a bad decision at the time looks like the right decision now. There is an opportunity to enhance the value some of the rental properties and the family has the required skill to carry out the improvements. This will improve the balance sheet position and as a consequence ensure that Rosemary ends up with 40% of the family assets.

Fund a retirement house for Rob and Diana:

This point has been non-negotiable within the family. Although there has been acceptance that Diana would not get the house she wanted, as soon as she wanted, it was agreed that the house was a priority which could not be put off forever. At the time of writing, the plans are in an advanced stage and the method of funding has been agreed as part of the overall plan. That method includes the transfer, to Robert Jnr, of the ownership of some unencumbered farming land which is not connected to the farm. Robert Jnr. will borrow against that land and in turn pay for the house. In the event that he encounters severe financial stress, the land could be sold without significantly compromising the business.

Ensure the farm is profitable:

There is still a lot of work to do to ensure that the farm is profitable in the long term. Currently the equity, when the commitment to build Rob and Diana's house is included, sits at a little over 60%. Low equity at what is effectively the establishment of a new (Robert Jnr.) business is to be expected. Equity at 60% is manageable, while interest rates are low, the season is favourable and prices are high. In the long term, equity will need to increase to ensure long term viability. Whilst investments in pastures and equipment are necessary, a plan to reduce debt is essential.

The lessons from the Kappa family are:

1. Without a succession plan, the next generation would not invest time in the business.
2. With the broad plan in mind, land was given to the next generation to allow borrowing to start paying out a sibling.
3. Ensuring that a suitable house is provided for the exiting generation was essential.
4. The farm had been falling behind in terms of productivity and the entry of a new generation created a huge amount of energy.
5. Without succession in mind they would not have increased productivity.
6. The plan evolved over a seven-year period.

Case Study 6: Pi Family

Business continuing

The family told the directors to 'perform or sell.'

Allan is the spokesperson for the Pi family. The Pi family company produces over 1,000 bales of wool annually in addition to running beef cattle and prime lambs and significant horticultural interests. The company owns significant pastoral and high rainfall country. Rather than growing the portfolio of nine properties by purchasing unattached land, the company has added to the land area by buying land adjoining the properties it already owns. The family doesn't make a fuss, doesn't seek publicity and is rarely in the news.

The company is almost 100 years old, all the shares are held by descendants of the founders and a member of the fifth generation sits on the Board. The company had a strong wool focus until the collapse of the wool floor price scheme, but since then has diversified its interests from Merino wool production to a number of other agricultural, horticultural and viticulture interests.

Some companies grow organically, but the Pi family had considerable assets derived principally from agricultural production before the company was established. The motivation for the establishment was very forward looking. Shortly after the end of World War One the founder and his son, decided to start the company to look after the interests of the daughters/sisters in the family. The provision for the daughters/sisters was very unusual then as primogeniture was the norm.

> **Allan:** 'The father and the son had previously been in partnership and set up the company to give an income stream to the sisters, or the daughters. The whole scenario was about providing for the whole family and going through succession. So now the company is still fully family owned, a third of the shares descend from each of the two brothers; the other third is from the three sisters. The reason for the establishment of the company was succession.'

The shareholders, in addition to their shares, individually own properties which are not part of the company. Some of those family members have succession issues within their nuclear family. '*They've got one property and it is difficult to share it between multiple children*'.

Succession isn't easy in a nuclear family, so is it harder, or easier, in a family company? Allan used the example of one of the Directors who is going through succession planning with his children and trying to determine how to make the eventual distribution equal. Another has said to the daughter, you either have to be working on the farm, or you're not going to get the farm and it won't be equal. As the company has passed through the generations, the number of shareholders has become larger and so the slice of the pie at generation 5 to 6 is smaller. With about 75 shareholders now, some have a very small proportion. The minimum shareholding is 500 out of seven million shares, but there are some shareholders that still have around 10% of the company.

The Directors have discussed pruning the family tree which is something that has happened in a few quite larger companies. In some they bought out their cousins, another bought out the rest of his family:

> **Allan** 'We have looked at that and that hasn't really got any legs at the moment. We work on the premise that if you are a family member and you are engaged with the family company you accept a lower return on investment than listed shareholding. Because as the generations go further down your shareholding is smaller, you probably live in the city and could be less engaged in the business. So it's vital that we need to keep our family members engaged, otherwise we are going to have to produce an investment grade return on their investment.'

Keeping family members engaged is a fine principle, but it takes some managing.

> **Allan:** 'At the basic level, we try and have shareholder trips to properties so that they can walk over them and see what's going on. Our annual report is fairly comprehensive, so we talk about what actually happens on each property, lots of photographs. We meet more often than just the AGM, we have shareholder functions. We are now encouraging family members to have an agricultural career, whereas from probably about the 1960's to 1990's that was very much discouraged. At that time family members were discouraged from going onto the properties.'

While it is easy to understand the initial motivation of the founders, over the intervening years, there must have been challenges to the Board. It seems amazing that five generations of family members were happy to remain committed. The leadership took a very forward

view and came to understand the importance of engagement. Alan explains how they might have arrived at that.

> **Allan: ‘**The wool crash in 1991 is probably a significant milestone in the family. There were good returns up until then and then it went to almost no returns and that was probably the start of 10-15 years of disquiet which culminated in around 2004. Then there was an ultimatum on the table - profit improvement or wind-up the company that was a wake-up call and the Board brought those two positons to the shareholders. The choices were to improve profit or wind up. They didn’t even get a seconder to wind-up the company, so everyone voted for profit improvement.’

Wind up was plan B, let’s concentrate on Plan A; improving profitability:

> **Allan**: ‘I think it was pretty structured in that way too, to get the shareholders on board. So, at that point we had a profit improvement program and we had to work out how we were actually going to make value for shareholders again. And it’s probably been fortunate that commodity prices have gone the right way. But some of the things we have done in that time include adding some liquidity to shares by holding share trading posts. The shares at the moment probably have an $18 asset backing, back then they probably had a $10 asset backing, but they were being sold at $2 – so no one wanted to sell their shares because there was no value in it. So we bought in a share trading post with a proper tradable value and also put in a buyback provision, a buyback of last resort, so if anyone actually wants to get out of the family they’ve got the opportunity to do it now.
>
> It is a discount. So, the formula we use is a 35% discount to actual asset value (or market value) and we get everything valued every year.’

How was the discount of 35% arrived at?

> **Allan: ‘**We determined that by looking at Prime Ag when it was listed on the Stock Exchange and was trading at about that discount to NTA [i.e. net tangible assets] at the time.’

Is there a limit on the number of people that can get out at any one time?

Allan: 'No, it's never really come up. So, when there is a shareholder that actually wants to sell all of their holding, it generally overwhelms the market of buyers, but that's when the buyback provisions kick in and it's never been more than a couple of percent. And also, it's definitely a Board Policy and I think that the shareholders would back it up, that because they have been bought back at a discount to market value, they would borrow to buy out shareholders.'

Showing that there was a way to get out was important but what about improving the performance?

Allan: 'So there was that [enabling exit] and putting that in place was a big key, the second thing was starting to get some proper returns.

The company has always been a conservative borrower and it really didn't have any debt. Whenever the company purchased another property it generally borrowed money from the shareholders rather than the bank. But that's created a lazy balance sheet. The retort from the company was, '*well pastoral and agricultural returns aren't really consistent enough to allow us to borrow against it so we would only borrow maybe 5% of the asset value*'. So, we sold a significant asset of about $30M, gave about one third back to shareholders in a special dividend and the rest of the money we put back into the company and built a commercial property portfolio. The returns on that are known and consistent monthly, but also consistent yearly, it makes it easier for us to borrow against assets.

So now our Board Policy is to borrow up to about 20% of our assets. That's allowed us to go out and buy a lot more properties, we are probably, on average, purchasing a new property about every 18 months for the last 5 or 6 years.'

And 80% equity is very solid?

Allan: 'Yes, the bank still laughs when we say that we're not going above that. And so, a lot of the properties have been add-ons to existing properties, but before we purchased them, they were being operated as a family farm in their own right, so it's not just one or two paddocks. Because we can borrow the money and use some of the returns from good commodity prices, we can pay that money. So, our acquisition

policy is really geared up which allows us to pay higher dividends to shareholders, but also, they've now got this indicator of share price, so the capital growth is moving up as well. We can demonstrate that even if you are only in this for an investment return, we are doing as well as, or better than, the market in general. This is helped by the fact that the market in general hasn't been going great guns in the last few years. It's put Agriculture back onto the good list, because [at the moment] everything else is not as good.'

Agriculture certainly had a period when it wasn't returning well and whether it's on the good list or not, is as much as anything, dependent on what happening to property/land prices:

Allan: 'I'll also just go back to the decade of disquiet following the wool price [collapse]. The Board strategy at that time was to diversify in order to not, solely, be reliant on wool. But pretty much all the investments the Board went into were shockers. But the company has stuck with those investment and they are starting to turn good now. We sold out of a citrus farm last year with an average of 11% per annum over the life of the investment, including that millennium drought.'

For a shocker, 11% was pretty good, but in the early days of the investment the returns were poor. The shareholders weren't getting a dividend, the Board was reducing the reliance on wool but the alternative investments were performing poorly. That caused disquiet. It was a key point in the company because it could have fallen over. It would have followed many companies where the first generation starts, the second one builds and the third one gives it all away. The third generation was in control at that time, so it actually could have gone the way that a lot of family companies go. But they had that buffer of the share portfolio which allowed them to struggle through the 1990's until prices improved.

Was the investment in physical assets that they could see and hold important, rather than the money market or shares?

Allan: 'I think the off-farm investment strategy started in the 70's, but the company built quite a large share portfolio pre 1991and it was around then that they actually liquidated the shares to get rid of all their debt. That's another thing said, if you held those shares in 1991, this company would be worth much more now; but that is

hindsight. And we are not interested at all in having paper investments now because it's not attractive because of the CGT [Capital Gains Tax] rules.'

When the Board had put the option to liquidate, they had stacked the argument a bit. Did somebody have the foresight to stack the argument, or was it just that they wanted to go on doing what they were doing?

Allan: 'At that point there were members of the Board who could see the disquiet and also the fact that the company was going a bit wayward. So, they brought in a share valuation expert. And the first thing that this expert really said was, '*I've got buyers in China that can take this all off your hands for you if you want, just 'name your price'*. That focussed the Board and forced the question - Do we really want to continue as a family company, or do we want to get out now?'

Selling was clearly a commercial option. There was a sell-out clause and the shareholders would receive 100% of their share value. Retaining ownership without improving profitability was not an option. The alternative to selling was to ensure that the company became truly profitable.

The possibility of getting out, took away some of the perceived necessity?

Allan: 'Yes, I'm sure there's an element of protectionism in the family. Individuals said I would definitely keep my shareholding if it is going to go off-shore. I think the fact that there was this opportunity and potential that you could give everything up and go away tested the family on whether they wanted to remain as a family company or not.'

Alan compared the Pi family to the Kidman family. His understanding, from outside looking in, was that the Kidman family lost control of the Board. They bought in independent Directors and over time the number of independent Directors was greater that the number of family appointed Directors. As a result, the Board became dis-engaged from shareholder base and vice-versa. The family lost control of the Board and they lost control of the company. Ultimately, shareholders sold because they were not in control anymore.

Alan says there has been some discussion about having an independent Director or independent Chairman because it can assure good governance. But the Kidman experience

has really focussed attention and people don't want to sell. They do want to keep the company in the family.

In this family company few shareholders have actually had to purchase their shares, so they probably don't even recognise the monetary value of their shareholding. Less than 50,000 shares out of 7 million have been purchased.

> **Allan: '**A reason why people probably accept a lower return is because they don't actually attach a dollar value to it.'

Is there a level of stewardship 'I'm holding this for the next generation?'

> **Allan:** 'Definitely and I've heard a lot of shareholders say – '*well look I've got this percentage of the company and I've got two kids, so it's my job to try and double the value of my shares so that I can pass down to my descendants the same that I inherited*.'

That's a real stewardship attitude:

> **Allan**: 'Yes, absolutely and I think that's something in a company that you can do. It's a lot harder if you are owning the property in your own right as a partnership or sole trader, because then you get these issues of having to split the farm up or whatever.'

The company is involved in benchmarking, both between properties and with a commercial benchmarking service. They put a lot of weight on benchmarking, particularly because they know they are in the top 20% of ABARES. The company has also increased property interdependence. That may mean accepting a lower profit on an individual property if it's in the whole company's interests. An example is the purchase of a property under an OJD order. The company has a policy to get rid of OJD, so they decided to spell it for two years and only run cattle and lambs. In order to get profitability from that property they weaned calves and lambs from all the other properties onto the OJD one and that was mutually beneficial. It gave a better result for those individual properties and now that's part of the property strategy.

The elements of success for the Pi family include:

I. The implementation of the share trading post was a significant point. The investment is more stable.
II. There is always a capital growth component in agriculture, almost every farmer borrows against it but the Pi family doesn't.
III. Commercial property investment allowing leveraging against something with a known income.
IV. A new acquisition policy to own more farming land, in addition to the commercial property.
V. Ensuring that returns from the land are optimised.
VI. Benchmarking to reinforce high levels of profitability.
VII. Leveraging on property interdependence.
VIII. Ensuring that family members are welcome on the properties and at business events interspersed throughout the year

The current management and shareholder engagement strategies should ensure that this business continues. It is profitable and growing. The family has succeeded in moving the ownership from siblings to cousins, has sound management and strong inter-family communication.

Case Study 7: Mu Family

Business continuing

'We could not allow it to be halved again.'

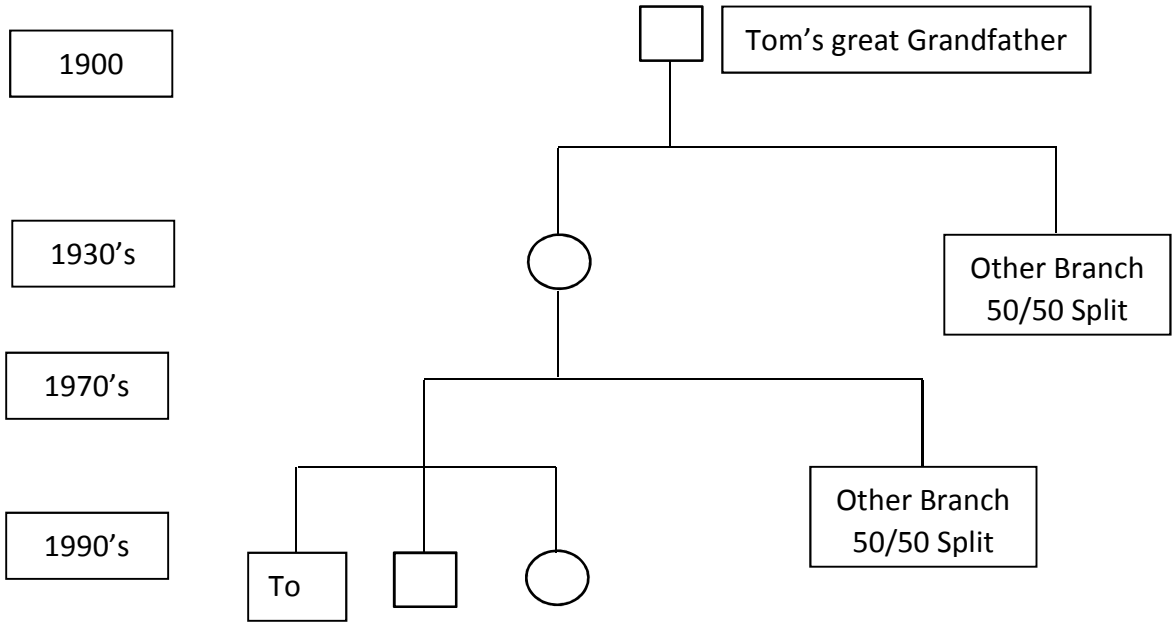
If there is a set of attributes which sets the Mu family apart from other similar sized farm businesses, it's the attitude to financial gearing and the use of capital and debt. Debt has hovered between 30% and 40% for successive decades. Tom Mu has continued to borrow to expand both his farming enterprises and his non-farming investments. It's a story of calculated, manageable risk which has delivered sustained growth over more than two decades.

In 1994, Tom Mu started with one third of a 1,200 hectare (ha) farm, valued at $500/acre, or approximately $500,000. He now has 60% equity in a property and share portfolio valued at $15,000,000. That makes his equity $9,000,000. The compound interest rate claimed is 14.75%. It's a remarkable story.

The story starts in 1904, when Tom's great grandfather purchased two properties (both of which have dual purpose land) in the district, which has a 650mm annual rainfall. He was a stock and station agent. He put together two magnificent farms. If there were mobile phones around at the time, he would've been forced to sell up, as his creditors would've tracked him down. He was a huge risk taker and just got by. He put the two farms together and over the generations the family ended up with land, which has subsequently been split up through the generations.

> **Tom**: 'We are the 4th generation to have a go at the farm. It was about 3,200ha at the time when my grandfather brought the property. Generation two split the farm. My grandfather had two daughters and it was split 50/50. This property was 1,200ha under my parent's stewardship. Mum and Dad inherited 800ha, I think and then Dad built it up to around 1,200ha.'

Figure 1: Mu Family Genogram



Tom's parents didn't consider debt at all. Tom recalls that they didn't have debt and that it worried them, '*they ran into debt a couple of times and they did not like it. They ran through their career at 95 to 98% equity with a small overdraft*.'

There was a massive change of attitude between the generations with Tom exhibiting some of the adventurous nature of his great grandfather, but with a prudent attitude to risk. Given their conservative nature Tom's parents did well to grow the farm.

> **Tom**: 'Dad had a small farm which he sold to his brothers when he moved here. So, when they moved up here, they had something behind them. They did well, tacking on a couple of the blocks next door from other relatives.'

Tom, who has an older sister and a younger brother, left school and worked in the Riverina for some time before travelling overseas. He completed an Agribusiness course at Marcus Oldham and came home seven years after leaving school. If history was to repeat itself the farm would shrink again. But Tom didn't muck about.

> **Tom**: 'Before I came home, we bought some country down the road and I loaded us up with debt. We did the transaction when I was at college. By the time I came home in December it had settled after the harvest. So, we bought another small block down

> the road so we could keep the station hand who dad had employed and I could join the business and learn the systems from both my Dad and the station hand.'

Tom's parents were ready to hand over. His mother had some unhappy memories and was happy to move.

> **Tom**: 'The ghosts hang around a very long time, so Mum was happy to leave here. Dad was happy to follow and willing as he knew we were up to it.'

Basically, Tom's mother said, '*here you go, if you stuff it up it's on you'*. It was a great opportunity. Tom was 25, his elder sister was 27 and living in the city and his brother, who was 21, had not decided whether he wanted to farm. A few years later his brother decided that he wanted to come home. Tom was living in the big family house and his parents had moved into town.

> **Tom**: 'We first initiated succession planning with our accountant before we brought in a lawyer to help us. Our accountant sat in on some of our meetings.'

In the early meetings, not long after Tom came home, both his Dad and brother were quiet, as they really didn't know what they wanted to do. At the time it was too early for his Dad to leave and his brother was too young. They each said their bit but couldn't really enact anything as family members didn't know what they wanted to do.

They tried it again the next year and Tom's Dad and brother said a little bit more, but they were not as vocal as he or his mother. His sister wanted to be part of it, but not to be a farmer.

By the third year a lawyer was called in and they were ready for him then; to take action and put a plan in place. They were selling the block down the road and buying a better block.

> **Tom**: 'My brother came back and we were both living here and we had the block up the road. My mother saw a farm of similar size as ours on the other side of town and suggested we sell the block. We did some figures and talked to the bank and essentially doubled up and bought Farm B. That way we had a farm each of similar size.'

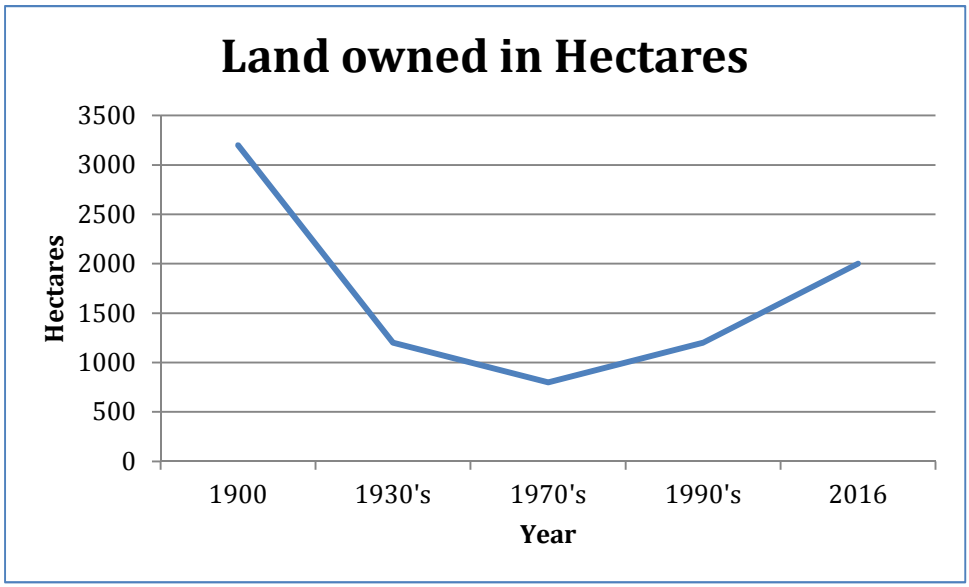
They had to work together because the bank wouldn't allow them to split. They had a big debt between them and with equity below 60% they needed focus. That initiated succession. That was in the late 1990's and interest rates were around 11%, but they locked some in at 12.5%. They had a couple of good trading years and then the 2000's drought hit and then the land values went through the roof. But they still needed cash flow to pay the interest.

> **Tom**: 'We had to generate cash, but we couldn't reduce the debt because the seasons didn't allow us and because our equity was low. We never capitalised our interest, we always made our payments.'

Looking back, Tom accepts that they skated on thin ice but says '*we were in our 20's and didn't know any different*' But although it was tight, they didn't ever capitalise interest. They bought Farm B which is roughly 50km from the home farm and traded as one business, drew wages and shared people and machinery.

Figure 2, below, shows the Mu family land owned in hectares throughout the successive generations.

Figure 2: Mu Family - land owned (hectares)



The issue of their sister's share was manageable because the brothers had borrowed for expansion and their borrowing accounted for almost half the total assets (40% in total).

> **Tom**: 'We had that property for five years and we didn't capitalise much on it. We paid $440,000 and sold it for $550,000.'

However, they hadn't paid any off the loan.

> **Tom**: 'No we'd grown with a little bit of machinery; we'd capitalised to then be in a position to purchase the other farm without any other expense. My brother was coming on board, machinery and everything we had around us was right. Livestock went straight across, so it worked quite well. We then had to work out how to keep our parents and sister secure. We cut everything into thirds. My brother and I got a greater share, but we also got the debt that went with it.'

Tom's sister will inherit the off-farm assets and she is happy. In round figures she will be given a third of the assets, as valued at the time of the split. Their parents have helped her out with buying a house in the city. She was quite emotional over the family home and mainly just wanted some ownership of where she had grown up. She accepted that it could not still be her home and home for Tom's wife and children. Those siblings leaving the farm need to roll forward a few years and ask themselves is this going to be their family home or is going to be their brothers wife's family home, it can't be both.

> **Tom**: 'It was very challenging and that is probably one of the hardest things because it wasn't clean.'

None of the siblings were married at the time so they ended up deciding to create value. They allocated a part of the farm which could be split off without affecting the core, to go to their sister. They transferred ownership into their sister's name, unencumbered and leased it from her at market rates

The partnership between Tom and his brother worked very well. They set it up to trade together for five years (as the bank suggested) and ended up trading together for 12 years. Then the split as amicable:

> **Tom:** 'When our kids were younger, probably seven or eight years ago now, my brother rang me and said:
>
> '*Everything is going great but let's split*.'
>
> I thought right – so how do we do this? So, we just added everything up, we a got a valuer in, to value the country on each farm; we got an agent in to value the stock, our machinery dealer to value the machinery. We laid it all on a big piece of paper, the

two farms, what stock was on each, what machinery we'd kept as we had a boom spray each and we shared a seeder and a few other things.

My brother said: '*That sounds good, but I don't want to do any farming, I want to contract it out*.'

I said: '*If I keep our employee and machinery, can I put your crop in? Someone has to do it and I'd do it at a better rate than a contractor*.'

He said: '*No problems*.'

I then took on all his machinery which meant I had more debt. We then got to our land, stock and plant as a gross on each farm and we adjusted it with debt and come to a net figure very nearly close to what we thought was ok.'

A similar discussion occurred when Tom's sister decided she wanted to sell her block to Tom. At the time she needed to upgrade her house in Sydney. It was a stepping stone for her and the sale was managed amicably.

Were you in a position to buy it?

Tom: 'I had to. But it was a stretch financially, it's never easy. You find the money and make it work. We had it valued and paid according to value. I just borrowed the money.'

The thing that's different about this story is that that big jump – doubling.

Tom: 'It was ridiculous, would I do it now? I doubt it. I know too much, I know how hard it can get and I have a family to consider. It's funny, Dad didn't like debt, yet he was more than happy for us to manage debt and he could advise us.'

Tom reckoned that they had 40 years to get it right and if, worst came to worst, they could have sold the place they bought, or at least sold part of it. They had a year of vendor finance, something like 20 - 30%, which allowed them to trade.

One year of vendor finance was useful, ten would have been better.

Tom: 'Doesn't happen. Our bank supported us and I am still with the same bank now. We didn't increase staff levels; my brother came on and we shared the station hand

between us. We made it work with crappy old machinery. The combine we used to put over some country, the hours we would sit on them just because we didn't want to buy an air seeder. In the first year we put in 800ha with one combine, a 130hp tractor and an old grouper.'

Where are you up to now?

Tom: 'Looking after Mum and Dad. The banks had first mortgage and paying out the remainder of my sisters third.'

What of the future?

Tom: 'This farm was 1,200ha when we took it over. It's now over 2,000ha so it's a two-labour unit business. It's equivalent of a 4 DSE country so it's a 20,000 DSE farm . I'm very comfortable for our stewardship. There is no need to expand our farming business for the next 10-12 years because of the scale we have now. We may expand if there are opportunities to purchase land that is under market value. Naturally we have debt, as you don't go from 1,200 to 2,000ha without picking debt up on the way.'

In the twenty-year period since Tom came home, the farm has built, split and then rebuilt again. Tom went from a big farm to a small farm, then building it up to a big farm again.

Tom: 'Yes, but you learn a bit along the way. I took on debt when we split so I didn't have a full equity farm because we had scaled up. Our land values had gone from $1,235/ha to $3,200/ha so equity position was very strong.'

They bought Tom's brother's farm at $1,235/ha (1,214ha). At the time, that farm was on the market and they made an offer before auction and got it. But Tom thinks that the bank wouldn't support him to the same extent now.

Tom: 'Timing and time I had time to get it wrong and then get it right again and I wasn't retiring during the GFC. That would've hurt. My brother and I split in about 2008and land was $3,800 per ha when we bought it in 1997/98 for $1,235 per ha and by 1999 it had gone to $1,730 per ha then just continued to roll.

The first year I was home we bought the farm down the road and we put in 2.5 times what our normal cropping area. Some of the country paid for itself in one year.'

It hadn't been cropped for a long time and it was highly fertile?

> **Tom**: 'I haven't had gross margins like it since. It was over $1,000 per hectare gross margin and we paid just over $1000 per ha for it. It was over a couple of hundred acres of this farm, this wheat just went. It was on lupin stubble; the guy had farmed lupins the year before and well just drilled wheat into it.'

It paid for the siblings to work together, they couldn't have done what they've done on their own. Now they have separate, but co-operating businesses. They didn't double up on machinery. That sounds like a copybook approach! Now looking forward, what next?

Are you setting yourself up so that if one of your kids wants to follow, they can?

> **Tom:** 'I'm 45, my kids turn 13 & 15 this year. I was 25 when I came home and I think that's a good age to understand what you want. It takes a few years to figure it out.'

Tom is setting the business up so he will be able to give an equal start to both his children, whether they want to farm or not.

> **Tom:** 'The minute we started on our own we were onto that. We just want to be able to give them the opportunity that we had, which is a start. We don't want to make it [too] easy but give them a start.'

The children are getting that start. Tom has involved the kids in the farm since they were little. When they were three or four, he gave them a cow each. They now have 32 cows in their mob, with another 14 heifers to be joined, making their mob close to 50 heifers. They are responsible for the mob, riding horses to check them and bring them in for marking and weaning etc. Having the own 'mob' given them a big sense of ownership and Tom reflects that it's 'been *a big key in having them understand*.'

Tom also shows his children that he enjoys what he does.

> **Tom:** 'It's positive, not negative, so the kids see how much we enjoy what we do. Our aim is to hand on our farm in better condition than when we got it. The kids see that it's not a drag. They're both very keen on farming at this stage. They both want to be farmers and they fight over who's getting what paddock.'

The land values have gone from $1,200/ha to nearly $3,700/ha. Consequently, the business equity has grown from the high 50's to the high 70's purely because of increases in land value. All Tom needed to do is to pay the interest. That growth in value will help him to hand over a viable farm, *'we want to be able to hand on our farm; we are custodians'.*

As Tom sees it he and his wife will have a thirty year tenure and then it is for the next generation to enjoy if they want to be farmers. No pressure on them to become a farmer, '*it has to be in your blood to do it; you have to enjoy it to want to do it.'* Tom thinks he will get a pretty good understanding if they're interested: '*If they're at Uni and they come home from holidays and want to put a crop in, you get that feel I reckon over time.'*

> **Tom:** 'There is a tendency these days for people to want to do something else and maybe at 35 decide they don't want to be a merchant banker and want to take it on. You could even put a manager on and satellite run it. There's opportunity. We want the kids to pursue careers and whatever chosen field they are interested in. They don't have to go to University. It's purely up to them. How do we hand it on and not be a noose around their neck?'

That's part of the three aims (funds for retirement, viable farm, happy family)and although Tom has pondered the question about how to hand the farm on, he has already started to grow the capital to make that possible:

> **Tom:** 'It's massive. How do we create an income stream, so we are not putting our hand out to our kids – oh by the way we're giving it to you but there's quite a few strings attached where you're not going to get ahead because we're going to stifle you.'

That's the next challenge, but with off farm investments Tom is well on the way to meeting it.

The ten key elements to Tom's success are:

1. The starting point of an equal distribution between the siblings has underpinned family harmony.
2. His decision to expand the farm before he came home.
3. This decision enabled the family to retain a station hand where many families dispense with hired labour to accommodate the next generation. Retaining the

station hand enabled Tom to have two mentors. The station hand helped him learn the practical physical skills and his father helped him with management. It also allowed him time to spend on development and growth plans.

4. His attitude to risk and debt. Where most livestock farmers get twitchy when debt is above 20% Tom is comfortable with 40% debt.
5. The timing of investments is important. When the collateral is available Tom will borrow and invest. The only question is - what investment?
6. When there is an opportunity, take it.
7. Ensure adequate money is put aside for long term planning, strategy and management.
8. Involve the next generation when they are young.
9. Demonstrate to the next generation that farming is an enjoyable business.
10. Tom and his wife take the concept of 'stewardship' seriously and want their kids to each get the start that they had.

Case Study 8: Sigma Family

Business Continuing

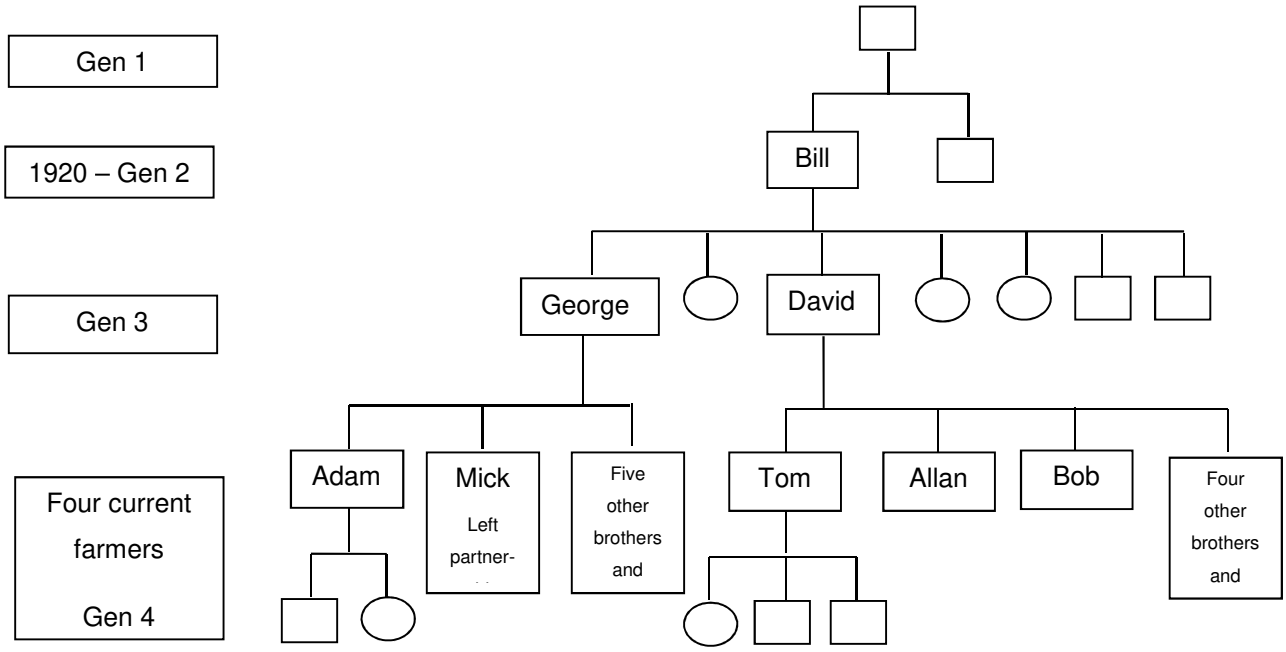
'Our fathers bought it, but we have to pay it off.'

Prior to 1920, two brothers in the Sigma family had been farming in a nearby district in the 700mm rainfall band in southern Australia. In about 1920, the family purchased Farm A, a holding of 800 hectares (ha) which is now the central property of the current business. One of the brothers, Bill, moved to the newly acquired Farm A. The exact timing is unclear but soon after he moved Bill became the sole owner.

Gen 4 is represented by Tom, one of the brothers and his cousin Adam.

The Sigma family is a large family as can be seen in the Genogram below.

Figure 1: Sigma Genogram



> **Tom**: 'Originally Farm A was 800ha. Not long after more land was brought, so the starting area was 1,700ha with no debt.'

Bill and his wife had seven children and two of their sons, George and David (Gen 3) built the business to the present 7,800ha and 'corporatised' it.

> **Tom**: 'Bill ran the farm until he died in the mid 1950's, but he wasn't motivated in the way George and David were. They were totally motivated and driven by the business. Bill maintained the farm size through to the early 50's. George and David took over around that time and it was those two that then drove the business, but they weren't the only children.'

George and David had three sisters and two brothers.

> **Tom**: 'One ended up with a house in town which I think was her payout. Then the other two were trustees of the Farm A and I don't know if they ever got any money.'

> **Adam:** 'I don't know that they got very much. There was some sort of payout and I know Dad looked after one and paid all her expenses. We're still paying annuity to another.'

Whatever the level of agreement or disagreement among the siblings at the point of incorporation in 1996, George and David had 50% equity. Corporatisation forced two issues. The first was that George and David took control of the lion's share of the company. The second was that they allocated shares so that the five children in the next generation who wanted to farm, received 80% of the shares between them and the nine non-farmers received the remaining 20%.

Corporatisation proved later to become the business saviour because, although they kept on purchasing land, they only paid a minimal amount off the principle. At the day of reckoning when the bank could have withdrawn support, the business was too big and it would have become very messy for the bank.

The business carried significant debt and Gen 3 left it for Gen 4 to pay it off. Gen 4 has three brothers and a cousin in the company. Shortly before Gen 4 assumed control, acting on advice from the bank, $1,500,000 was borrowed in Swiss francs. When the loan was called in by the bank the repayment amount was $3,000,000, or double the amount borrowed.

The rationale to borrow in Swiss francs, before the relative values of the currency's changed, was simple. Bank interest on loans within Australia was sitting at around 16% and Swiss francs could be borrowed at interest rates as low as 4%.

During this period, the Australian dollar (AUD) exchange rate peaked in 1982 then plummeted in 1985. To translate this into money, a loan of CHF (Swiss franc) $1M would have looked like this:

In 1982: Exchange Rate of 2.2 – CHF 1M = AUD 454K

In 1985: Exchange Rate of 1.4 – CHF 1M = AUD 714K

This situation worsened over the following year. The worst position was a 0.93 exchange rate in January 1988, at which time CHF $1M would have been AUD 1.075M. So it was possible to borrow CHF 1M at a cost of AUD 454K and pay back AUD 1.075M.

Put simply, for every $1 AUD borrowed $2.35 (plus interest) needed to be repaid.

The Swiss franc strategy was almost the end of the company. But they owed so much that the bank would have incurred a huge write off if the business had been sold. The bank hung in (just) and the family disposed of all non-farming assets. It took a long time to get back to a reasonable (80%) equity.

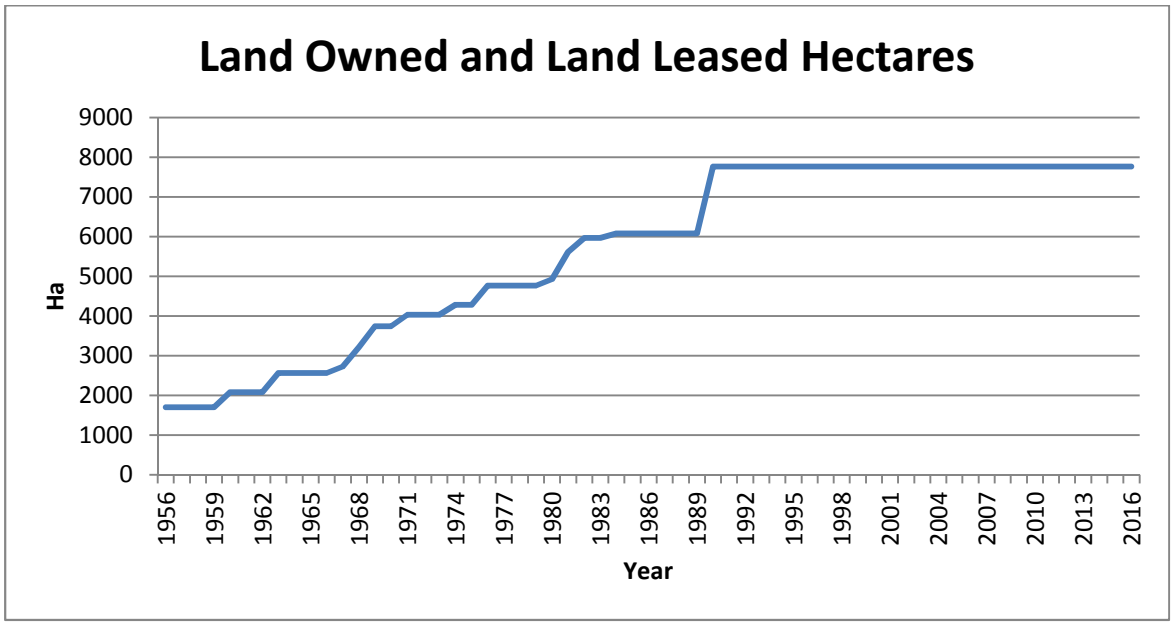
The pattern of purchasing which led to the low equity is shown in Table 1.

Table 1: Record of property purchases

Property	Year Purchased	Area Purchased (Ac)	Area Purchased (Ha)
A	1956	4,200	1,700
B	1960	940	381
C	1963	1,200	486
D	1967	400	162
E	1968	1,200	486
F	1969	800	324
G	1969	500	202
H	1971	730	296
I	1974	600	243

J	1976	1,200	486
K	1980	400	162
L	1981	1,300	526
M	1981	400	162
N	1982	536	217
O	1982	160	65
P	1982	180	73
Q	1984	270	109
R	1990	870	352
S	1990	3,300	1,336
Total			**7,768**

Figure 2: Sigma Land Owned and Leased Table in Hectares



Gen 4, the sons of George and David, had to concentrate, negotiate and work hard to hold the business together. They also had to sell non-core assets, some at fire sale values:

> **Adam:** 'Our debt continued to grow throughout the 90's after we [Gen 4] took over. Farm A was corporatised in 1996. That provided the succession frame. Acting on advice from an adviser and the accountant the decision was to corporatise Farm A and give everyone a shareholding. All the family members from both their families received a percentage of shareholding in the entity, which hosted about four

> companies and, two family trusts. It was a shareholding of a very complex set of entities. Five of us boys ended up in the business and we bought one out.'
>
> **Tom:** 'By 1996 there were farmers and non-farmers. At that stage there were still two of David's children who hadn't made a decision as to what the future was going to be. Whereas, the other five had, so they put shares in trust for them to be either distributed to them if they decided to be farmers, or to be distributed back to David's family.'

The decision to corporatise was made so the management, future ownership and debt were all together in a package that the family could manage and assist in negotiation with the banks. It made it easier to actually make some decisions. At the time, in the 90's, given the debt situation and very poor income, due to poor commodity prices, they realised that any decision to split the farm '*would have absolutely cruelled our chances of surviving'*. So, they took the view that they would corporatize and that provided an instant solution to a problem that had grown over time.

> **Tom:** 'There was a real hole in the last 20 years [and] we've been trying to work through all the issues of.'

At one stage they had an off-farm investor who loaned them $1,000,000 in a really tight time. The initial thought was that he would convert to a shareholder one day, but the more he looked at it, the less he liked the idea. He maintained his investment for five years and it helped from a business point of view. He also gave the family pointers in how to run a company, but when he got to the end of the five years, he realised he couldn't easily exit if he became a shareholder. At that stage there was no-one to sell it to.

> **Tom: '**During those five years our debt reduced significantly and also the land values had a leap in value. We went from land worth $2,100 per ha to $3,700per ha.'

Looking back, the family still marvel at how George and David managed to get the bank to agree to so many land purchases. The expansion was all funded by bank finance.

The thing that really stands out as putting the business under extreme pressure was a 25% expansion of the business in 1989. Things like low wool prices, the floor price scheme

disappearing, high interest rates and drought were manageable, but when they coincided with a big expansion, the business was on a knife edge.

The business had a good run and just before wool fell over, they were thinking about buying a place for $1,877 per ha. It was a big price and their consultant said, ***'look it's too dear'.*** George and David used to joke that when they had an argument they would just go and buy a block of land and make up.

> **Adam** 'Although it was a joke, I think there may have been something in that. They had this belief that they had to buy land. If it fitted, they didn't really care about price. They had to have it.'

The ABARES report of the early 90's predicted that agricultural prices would halve for the next twelve months. The bank had set a trigger in place for the Swiss francs and the likelihood was that the payback figure of $1,500,000 was going to double to $3,000,000. Even with all those factors in view George and David bought more land.

> **Adam:** 'We'd ridden on the back of the ute all around a farm which was for sale and looked at all the sights, beautiful rolling country. Then I can remember going with Dad to the bank in Sydney and our Bank Manager said, '*you're looking to buy 4,000 acres'.* Dad said, '*no that's George*' and he said, '*well if you want to buy it, just come and see me, we'll fix you up*'. That's what it was like.

Adam remembers telling his father that they shouldn't buy a place. It was going to make things really tough. Adam argued that they had enough land. He wanted some breathing space. Adams father said '*no, I'm going to buy it*'. And he did.

Then the bank issued the ultimatum to reduce debt.

> **Tom:** 'It nearly killed us too. There was some pretty dramatic rationalisation of liquidating anything that wasn't producing (non-core assets).'

They had an apartment in Sydney that they bought in 1973 for about $53,000. It was sitting up on a ridge overlooking Sydney Harbour in a beautiful position. But 1995 the bank wanted the non-core assets sold. That apartment was sold for $220,000 and within twelve months it was worth in excess of $1,000,000. They also sold all non-farming assets, including a house in town on a small acreage and a boat.

So at this stage with the older generation, although in failing health, still in charge and in some sort of denial, it was tough on Gen 4. It affected one of Adam's brothers so much that he took his share, at a reduced value and left. But the others stayed together as a team and decided to work their way out of it.

At that point the bank estimated the equity was 50%.

> **Adam:** 'The bank never thought we'd get assets out of it, they thought we were gone. They didn't give us a chance really. They didn't close us up, but they were prepared to let us bury ourselves. But we never ever missed a payment, interest payment, anything.'

They made the budget work and ensured that they kept every commitment. They were young blokes who could go outside and not worry too much about things and just keeping working. They think in a way it bound them together, they believed that they had no choice.

> **Tom**: 'What we had in front of us was what we had in front of us. In a sense it is actually easier than some of the things we're faced with now. Basically, we had a goal, at the end of the year we had to meet this interest payment, pay some off the debt if we had some left over and then do it again the following year. Our focus was to hang onto what we had and things would work out.'

They were trying to put money aside to enable succession to the next generation. From the corporatisation process in 1996 through to about 2000 there was no road back. They paid the first dividend in 2003/2004 and thought they were starting to win. The debt had dropped by about $2,500,000. With land values starting to springboard in the 2000's, both the family and the bank could see that they were starting to return a profit. This hadn't happened for a long time. Things were looking up and everyone was telling them they had a future.

Although they had been banking with one bank for thirty years, they tendered the business with other banks. They were unhappy with the Swiss franc issues and believe this was poorly managed by the bank. They weren't people that knew agri-business. They went through the tender process and things were looking up. Westpac, their new bank had a good attitude to their business.

> **Tom: '**And then we got that 2000's drought and all of a sudden that $2,500,000 debt that we had reduced, just came back in 2 years.'

The debt was back, but on a much larger asset base. After the decade of clawing debt back it was hard, emotionally and physically. It was a hard time and hard going out every day and working. They were older and it seemed tougher.

> **Tom**: 'It was bloody hard work, but we kept at it and we paid massive money for stock feeds and we introduced a whole heap of weeds on the farm that we don't need, in doing so. Once 2009 came, it was still a drought year, but we broke even so it wasn't a bad result.'

Since 2010 they have had the best run in the history of the family. They have been consistently budgeting on a $1 million pre-tax profit and consistently achieving nearer $1.8 million. It's just been working now, but it has created big issues for succession plans.

> **Tom:** 'Suddenly you realise that you're 60 years old. You're not young anymore.'

Remember, at this stage, there are four sons of the Gen 3 brothers (George and David) in Gen 4 who own and manage the farm, three siblings and one cousin. The cousin (Adam) has a daughter and son in law involved in the business and working on the farm, but the three brothers (Tom, Adam and Bob) don't. They do have children working in agriculture, but off farm. This is a core issue for Adam.

> **Adam:** 'I'm a 20% shareholder of this company and the other three are a bit more or a bit less. When the next generation comes on, if you put more than two sons on the farm out of your shareholding, they're 10% shareholders. It's not the end of the world but I have my doubts whether that's going to work.'

The questions the current generation are asking their children include; 'Would you choose to be in business with your brother or your cousin'? The current generation didn't have to make that choice. They were never asked if they wanted to be part of the family farming business. They finished school and/or University and just came back.

For this business to continue on into the fifth generation, they have several options. The current generation has become self-sufficient for retirement. A few years ago, they were thinking they were going to need their shares to fund retirement. The more they think about

the succession plan and what it means to the farming business, the more they realise that cashing out the shares is not a good option. Getting the value within a private company is difficult and they believe they have a responsibility to the business. They see themselves as caretakers of the company, with a responsibility towards the stewardship as well. They ran a partnership on top of the company's structure, so they didn't have to pay Superannuation or Workers Compensation and now they have to face the consequences of that decision.

> **Tom**: 'I'm 57 and suddenly realised, you know, in about 10 years' time I've got to be able to step away from this place and look after myself.'

At the end of the day, they want to be able to give their shares to the next generation. They will probably follow the lead of David and George. They made the decision back in 1996 that when the shares were distributed amongst the 14 children that the farmer's sons who wanted to farm would get the lion's share and they did.

> **Adam:** 'We've all seen farms with three or four kids and one boy wants to run it, or one girl wants to run it and the other three are given 25% each. Then the farmer has to buy them out and it doesn't work, it kills them.'

There is an element of a stewardship, with the current generation wanting to have some influence on the place in 10 years' time; leaving a legacy. They want to hand shares on but ensure that the company is viable. They understand they have to get the farm to the position of consistently paying a dividend. Then they can afford retirement and hand over the running of the farm to the next generation, if they want to work the land. The millennium drought disrupted the plan to a certain extent; it put them back about five years.

One part of the plan which has worked, is that each of the current generation owns the house they live in and a small parcel of land.

> **Tom:** 'There was a change of council regulation that you could as a farmer title off a couple of hectares and a house block'

The challenge now is for the company to make profits and pay dividends. The next generation has the opportunity to expand, when the current generation hand over the titles.

The Sigma story is a great story with some important lessons:

i. In Gen 2, two brothers realising that the farm wasn't going to be big enough when they both had families, managed to get a farm each. The present generation, represented by Tom, Adam and Tom's two brothers, is benefiting from the start provided by their grandfather.
ii. In Gen 3, two brothers, David and George, decided that the business had to be corporatised.
iii. In Gen 4, five sons, including Tom and Adam, started out working together. Adam's brother, when he realised that the burden of debt was too great for him, was able to exit. The remaining four have been able to carry on the business through drought, the Swiss franc affair, the wool crash and low cattle prices and have effectively had to buy a significant proportion of the land that they now farm.
iv. The four have agreed on the big picture for the future:
    a. They will lease the farms to the business on favourable terms.
    b. They will put money aside in good years to ensure that a dividend can be paid in bad years.
    c. They will start to involve the next generation in what is, effectively, a family forum, bringing the whole family together, providing them with opportunity to understand what working in your own business really means. This will give them then the opportunity to decide if they want to be part of the business, either working directly on farm, or in an associated business.
    d. They will be using the principles outlined in the 'Family in Business' model.
v. They have also worked out how the next generation can have input into the Board.
vi. Effectively, they have appointed a family forum and a family council.
vii. They will develop a Shareholder Agreement and what is effectively a Buy-Sell agreement for the next generation.

With all of the steps that they have put in place, there is every reason to anticipate that the business will carry on until the next generation have children who would want to be involved in a senior management level. That is probably 30 years from now. In preparation for those circumstances, the process will need to start again in a few years.

It is a good story.

Case Study 10: Alpha Family

Business not continuing

'We were the stewards, it wasn't ours to sell.'

The Alpha family farm isn't viable. In reality, it wasn't really viable when Nick's father took it on. But Nick and Sally Alpha are content with their lot. They are amongst a diminishing group of farmers who have an attachment to the property and family history, which outweighs economic reality. They could have sold the farm and had enough money to buy a viable farm in a district where Nick could have followed his farming passion, but they choose to stay. They see themselves as life stewards holding the farm in trust for the next generation. Although they hold title, in Nick's words '*it isn't ours to sell.'*

Nick's farm and family story is a copy book example of a farm which has been successively cut up to allow the members of successive generations to farm on their own account.

The 1840's generation comprised an equal partnership between two brothers. They handed over smaller areas to their children. In the 1920's the farm was split again and again in the 1940's. The brothers who took over part of the original holding in the 1940's split it three ways in the 1950's. Nick is a member of the fifth generation of his family to have farmed the land since it was first occupied by his ancestors in 1840.

When Nick took over in the 1970's his father retained part of the farm, which was subsequently sold outside the family. There were injections of capital in Nick's parents' generation from family sources which took the pressure off Nick. In addition to that source of windfall capital, Nick's father had an Uncle who didn't marry and, as a consequence, in that generation there was more land to share. In addition, Nick's wife, Sally received a modest inheritance from her family.

The farm wasn't a viable farm when Nick took it over and if Nick and Sally hadn't developed a direct to customer niche market product, they would not have been able to make a living. But they did make a living, while also educating their children and then handed the place over. Staying came at a personal cost of needing to be very careful with money, avoiding taking holidays and being available to look after their customers virtually 365 days per year. The other cost is that they will have to continue working into their late seventies.

The farm land is now owned by the next generation. Nick and Sally own a modest house in town and return to the farm to help out. Together Nick and Sally had achieved their life's aim; to hand over the place to the next generation.

From Nick and Sally's viewpoint, selling was never an option. They probably hadn't read what Dr Simon Longstaff from The Ethics Centre wrote in relation to the ethical question surrounding any possible decision to sell. Nick didn't need to seek outside input. But had he consulted Dr Longstaff, Nick would have found that Dr Longstaff distinguishes between assets passed down through a family, such as heirloom jewellery and wealth that has been accumulated during your lifetime purely through your own work and efforts.

According to Longstaff***, 'While legally you might be entitled to dispose of an heirloom however you like, either during your lifetime or in your Will, ethically you cannot sell it if you accepted it knowing you were expected to keep it in trust for the next generation.'***

As Nick and Sally contemplated a future, they believed that ethically the farm wasn't theirs to sell. There was no prospect of handing a viable farm on to the next generation, so the situation was difficult. None of the children were in a position to buy the farm or buy out any of their siblings. As they saw them, the choices were:

1. Hand over to one child and allow the others to miss out;
2. Hand over with joint ownership;
3. Hand over to those who want to farm so they can borrow to buy out those who don't want to.
4. Hand over in separate (about equal) parcels, so the problem of who gets what is dealt with now.

If the farm was kept intact, anyone of the next generation has the skills to manage it and any of them could have taken it on. So, there was no oblivious successor. The option of handing over to one child was rejected.

If the farm was given to the children jointly, they would have to work together as joint owners. Although the siblings get on, they don't get on well enough to be welded together in business. Any arrangement which involved joint ownership was only prolonging the day when the farm would have to be split.

None of the children had the resources to borrow and buy out any of their siblings so option three was dismissed. That left option four, hand over in separate but about equal parcels, as the only option worth consideration.

There were four background questions:

The first was '*Would it be fair to hand over to one child*?' The answer to that was no.

The second, *'Should we force the children to be in business together*?' Again, the answer is no.

The third, '*What gives the best chance of keeping the farm in the family?*' The answer in this case was by splitting it up.

The last question was whether the '*Split had to be equal?*' In this case the children answered the question for the parents and the answer was no. The monetary value of land going to each child was near to equal. However, one of the siblings acquired the homestead and surrounding buildings which is now being run as a conference centre and accommodation business. The siblings now farm together on land which they own as individuals.

There was nothing easy about the process, or the eventual decision. Nick and Sally are comfortable that they have made the right decision. They would have been better off financially if they had sold and it is likely that the next generation would have been better of (financially) also. But the decision wasn't mainly about money. In fact, it wasn't about money at all.

So what was it about? Nick had the final say. **'***It won't be sold on my watch'***.**

The key messages from the Alpha family are:

1. Some families place more importance on stewardship and keeping the farm in the family than on economic factors.
2. In order to meet the stewardship obligations some families will forgo many of the trappings of modern-day life.
3. It would be unfair to postpone the eventual decision about ownership by leaving it up to the next generation to decide.
4. The best chance of keeping the farm in the family may be to split it up between the siblings.

5. Individuals make choices and one choice, no matter what the consequences are can be '*It won't be sold on my watch'*.

Case Study 11: Gamma Family

Included with the not continuing studies

'We wanted the next generation to be free to choose.'

When a property has been in the family since 1930and there are expectations and the weight of history on the current generation, it would be very easy to continue to carry on with the current enterprise mix and then when the next generation is in charge let those people decide if they want to change. But that isn't what the Gamma family has chosen to do.

Mark and his wife Anna, had built a cattle seed stock business almost from scratch. It had become the dominate enterprise and fuelled expansion. The expectation was that one of their sons would follow their lead and take on the business. But the next generation had other things in mind. When Mark started work, he didn't have such choices.

There had been a stern call to arms, almost a warning from Mark's Grandfather to Mark when he first came home to work on the farm.

> **Mark**: 'My Grandfather talked about the sheep stud and said, '*That's your legacy, don't bugger it up*!' And they are pretty heavy weighted words in regard to his thinking.'

Mark and Anna decided to allow the next generation decide what they wanted to do, without being constrained by history.

> **Mark**: 'Let's take the buckets off the next generation, let's tip them out and let them fill up them up again some other way.'

The most important thing in their minds was that although they really want the next generation to farm, they want them to have a free choice. That choice extends to whether they want to farm, where to farm and what enterprises to run. Mark wants their children to have free choices because when he and his brother started work there was an expectation that they would farm. They weren't asked '*would you like to do anything else*?'

They see themselves as lucky because they had more than one family farm to do it on, but there was an expectation that they would come home and play their role. Mark and Anna

believe that with the education and the opportunities available for young people that they have to be able to choose.

> **Mark**: 'They've got so much they can do. With us there was an expectation to come home and, if I asked my contemporary's *'who would have gone farming in this day and age',* you'd probably only find 10-20% would.'

Mark had been thinking about how to capitalise on the 2017 beef market without letting it wash and come back to reduced values. He didn't want to miss out on what could effectively be a good financial opportunity for the family and the business. Initially he contemplated selling all the commercial cattle. But observing his sons and noting what they were interested, he couldn't see beef seed stock as their area of passion. But then there was a 'light bulb' moment.

> **Mark**: 'I was having lunch one day with a mate and we were talking about the beef industry and he said, '*God you guys are in for a good ride'* and I said '*yes, wouldn't I be a silly fool if I didn't capitalise on it'*. Then I came home and said, '*Come on guys, let's get in the office we've got to have a talk'* and that probably was the catalyst, that one conversation, but the rest was twisting around. Anna had told me in July last year, '*Do something about it or shut up'*. She said, '*it's not fair to keep saying to our boys,* '*do we sell and do we not sell*?''

Ideas which had been rattling around in in his head for six months suddenly started to take form. There was that combination of things; great market opportunity and what does the next generation want to do. Mark has always wanted to try and do the right thing, particularly in relation to succession. But what's right, how do you know what's right?

Mark recounted the first meeting he had with a succession advisor, who asked him what he wanted. His answer was '*the rule book'* **-** a guide of how to do it. Another thing that stuck in his mind is advice from a Sydney businessman. He was the fourth son of a father/son farming enterprise and he really wanted to go home, but his father said '*sorry, there's no room for you, you better go find something to do'*. He bought a little business and turned it into a very big business. His views on succession influenced Mark. He said '*I don't get all this stuff that you're talking about. I reckon you ought to sell the lot and give them enough to start again and watch them.*'

Mark thought that was an interesting concept, but he pointed out that people become attached to these family farms. The businessman's theory isn't silly, but there is still that emotional attachment to the land. Those thoughts spurred Mark on and he thought, '*how can I change this for the better, for the future?'*

Mark decided that if either of the children wanted to get into the seed stock business of breeding and selling bulls, it's easy for them to start from scratch. Mark proposed to the family that the current seed stock business should be sold as quickly as possible so as to take advantage of the market. The family enthusiastically agreed.

The decision to disperse the stud was made in October and the first of a series of sales was planned for the following March. The family agreed that they would do whatever was required to bring a very large number of cattle onto the market in a very short period of time. It was a lot of work.

> **Mark:** 'A lot of work… but I love a challenge and it's what everyone said, '*You haven't got time'*. '*You need 12 months'* and I said, '*You watch me'*. We were pretty busy, but its organisation, it's planning, it's management. You spend the time with your staff and say *'look, in sale week this is what's going to happen' - 'these cattle are going to walk through a process of paddocks to the sale ring, they are going to be available for everyone to look at on the way, but there's this step process that we've got to do and we've all got to know what we're doing and we've all got to know when it's going to happen*.''

The following March they had four sale days all in the same week, Tuesday to Friday. They put 1,500 lots up for sale in those four days, including live cattle, embryos and semen. Each lot was sold through the ring individually. In order to avoid flooding the marked younger bulls were held back until September.

Now it's a purely a commercial farm. The next generation is free to choose how they farm it and there is sufficient cash in the system to allow a wide range of choice. Some of that may go into superannuation for Mark and Anna. There is likely to be a change in farm management now, with the next generation taking over and Mark doing less. Mark and Anna will keep a close eye on the financial situation and gradually allow more authority.

They have put some succession models in place, including the use of a trustee management company and a management company over the whole business with corporate trustees. This structure allows flexibility when required for the future of the business.

The son who is at home, is enjoying the challenge.

> **Mark:** 'He did his first real budget with me the other day which was only finishing up this financial year. I'm saying to him you have to live this now. For the future, you've got to live this.'

Most people won't sell cattle when the market is riding high and Mark's reflection is worth noting.

> **Mark**: 'Is it a ballsy decision. Once you make a decision like that, yes you have the flutters and all that sort of stuff, but you make it and then you've just got to get on with it. What's the point of going backwards?

Mark likes looking forward. He didn't want to keep doing the time-consuming stud work for the rest of his life. So if someone else wasn't going to take a lot of the workload from he and Anna, that part of the business had to be sold. The customer always wants to talk to the principal, they always want the person who is supposedly running the stud and it is very demanding.

> **Mark:** 'Staff, clients. It still comes back to me.'

No matter what Mark says it was a gutsy decision.

The real lessons in this study are that:

1. In spite of ninety years of sons following in their father's footsteps, Mark and his wife Anna, have broken the mould.
2. They have allowed their farming son the room to move and farm the way he wants too.
3. They have also freed up capital which will provide them with more flexibility in the way they hand over assets to their other son, who may not want to farm.
4. They have taken advantage of a market on a high and have not been in a hurry to restock. For the moment, while prices are at current levels, they will renovate some pastures and either short term lease or take on agistment.

Case Study 12: Zeta Family.

Business not Continuing

They kept selling land to fund their lifestyle.

The Zeta family first settled in 1846 in the Monaro region of South Eastern NSW. The first generation was a squatter and selector. His four sons actually bought the property in 1885. It was 3,200 hectares (ha) for which they paid £20,000 ($1.6M in 2016 dollars). The homestead, which was built in 1868, has had continuous ownership and occupancy by six generations of the family since 1885.

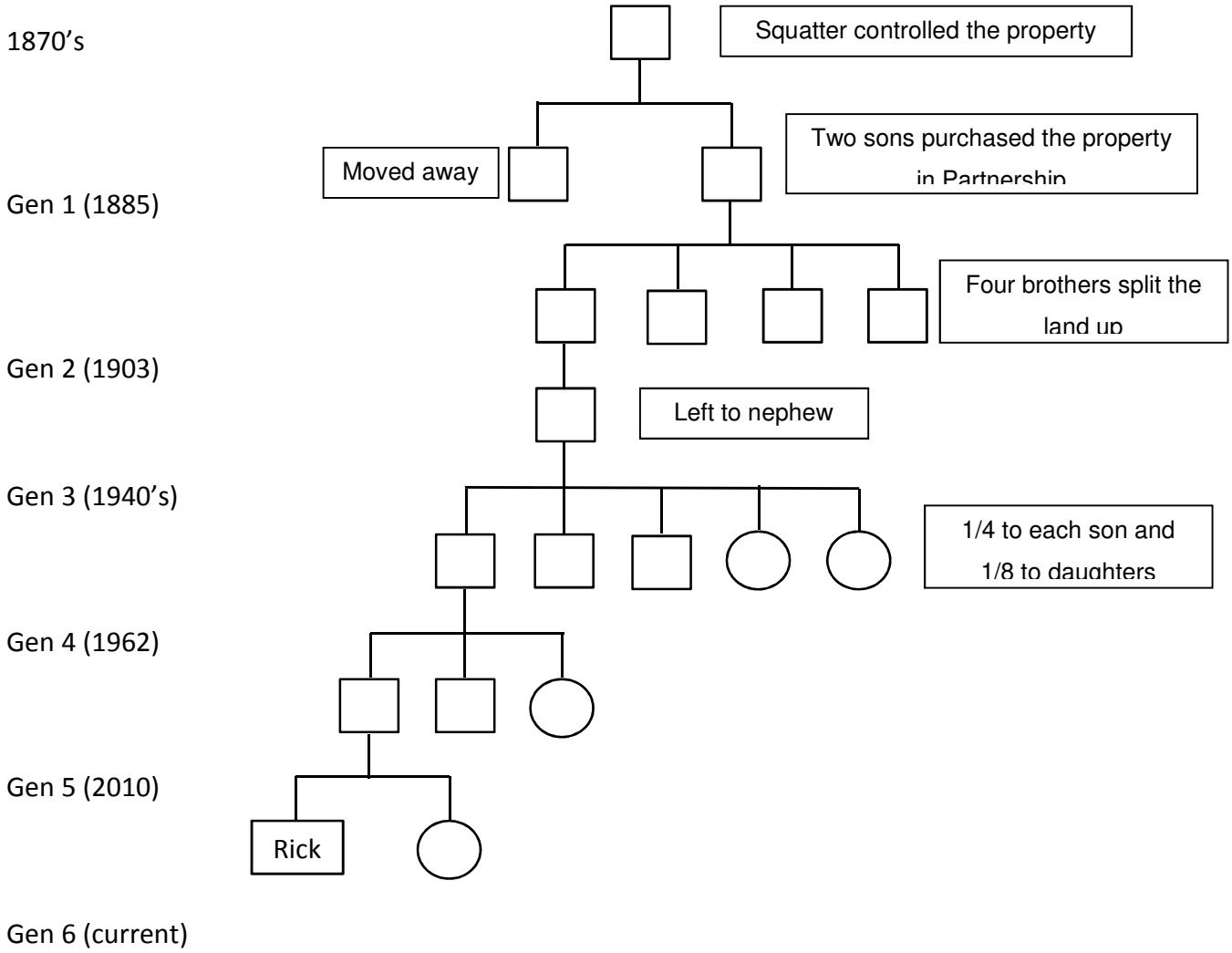
The Zeta family owned other properties amounting to 16,200ha, but the partnership dissolved in 1903, when the land was split between the four brothers. The oldest son also died that year and his family took some land, while the current branch took the remaining farm, which is the subject of this case study.

Rick's (the current farmer) great grandfather was the youngest child and when his uncle died in 1942, the farm was left to him in gratitude for the work he had done for him in the past. Rick's grandfather had been working on the farm and his father left one-quarter each to his three sons and one-eighth each to his two daughters. There was a large amount of probate to pay so Rick's grandfather bought much of the property from his brothers and arranged for his son (Rick's uncle) to buy his sister's land by guaranteeing his loan and covering all his costs. He also gifted around 100ha each to his daughters to avoid the probate problem in the future.

Consequently, the land area has decreased in this way over the years as the figure 1 below shows.

Figure 1: Zeta Family Genogram, including comment on land ownership and split.

Ownership commences in 1885 with Generation 1.



During its ownership of the property the Zeta family has endured some of the biggest droughts, floods and snowfalls in Australia. The family is proud of its heritage, but to some extent it has been pride which has limited the ability of the business and rendered it unviable today.

When Rick, the current and sixth generation owner, took over there was a complex ownership and management structure, a low input history, pastures were mostly under improved and structural improvements were generally decaying. To add to this mix there was limited off farm investment, the family had too few active and too many passive contributors. All the

members of generation 5 had a view about the management, but only one actually contributed. There was a long history of extended family involvement in local district and industry activities.

Members of generation 5, the generation before Rick, had no real opportunity to manage the property other than what was almost a 'caretaker capacity' in the twilight years of generation 4.

Rick, the current owner, has the following assessment:

> **Rick:** 'I think we would all agree that the longer you leave it to plan succession, the lower your potential for success. Because, if nothing else you get health complications coming into play, particularly mental health issues and dementia with older generations. You also get the various parties that might be interested in a farming business, go away, get married and have kids and it just gets more and more complicated. So I would argue that the critical lesson is to get started ASAP.'

As Rick sees it, succession is multi-faceted and involves:

1. Future needs:
    a. Farm and off farm
    b. Aged care/accommodation
    c. Dividends and returns
2. Assets and Liabilities:
    a. On farm
    b. Off farm
    c. Immediate
    d. Future
3. Commitments:
    a. Past debts/loans
    b. Unpaid contribution by family members
    c. Bequests and pledges, both formal and informal
4. People:
    a. Owners
    b. Managers
    c. Next generation
    d. Aspirations

A Generation Missed

In Rick's experience, when you miss a generation on the place and you are trying to play catch up, it gets pretty difficult and it's hard going to recover. So, it would have been easier to start earlier, to gather physical and financial data, encourage family participation and understand and manage expectations.

> **Rick**: 'Set a process in train, explain to the family what is happening and seek professional advice. Ensure that the professional advice is from people who are impartial, independent [not seen to be too close to any individual family member], competent with a proven track record] and well networked. It is also important to get a cost indication/ undertaking to ensure that the advisors have no baggage which will make them unsuitable, that they are accessible and compatible.'

Although they used appropriately skilled professionals, the journey was difficult because family communication was poor and relationships which were already strained at the beginning of the process, broke down completely.

In Rick's case, although it was obvious for some years that a generation would be skipped, it would have been possible to keep the momentum of the farm if the older generation had permitted it.

> **Rick:** 'I have a mate where the farm was running perfectly well but he wanted to go away and get experience in Agribusiness off the farm. There was not a lot of communication. His parents got to the point where they made assumptions [which is the worst thing you can do of course] and they got to a point and said, '*We've had enough, we'll sell it'*. Even though he came back and said, '*I am interested in it*', it was too late. Mum and Dad had switched off and they had seen the light for retirement, or at least the end of the farming business and that place got sold in the end even though the son was, arguably, perfectly well equipped to come home and take it on. They had actually just progressed too far mentally and probably financially as well to reel it back in.'

Rick has strong views on how much input (life) partners have in the process. He has seen many situations where the 'outlaws have railroaded the process' and thinks that although

'outlaws' can be included in discussions the decisions should rest with the 'blood' members of the family.

> **Rick**: 'No DNA, no play, but in the case of an in-law who has been living and working on farm, remembering the difference between equitable and equal is important, I would break the DNA rule there. It is easier if you are negotiating and having these discussions as a nuclear family before partners etc. have come onto the scene because siblings generally get on, don't they, they might fight and scruff a bit, but they generally get on. Where it gets bad is when more parties come on board.'

Rick thinks there were attitudinal and generational aspects, such as '*I'm the patriarch of this family, my word is final*'. Unfortunately, there was a fair bit of what Rick described as *'petty, belligerent behaviour*'. Every farm transition needs someone to drive it and in this family that '*sure as hell wasn't going to come from the patriarch'*. In fact, Rick thinks that because of the attitude he had, that sort of iron fist, his children would never raise succession. Rick often asked his mother how it was left up to him to resolve. His reflection is: *'The old fellow rules with an iron fist and no one would raise it with him. They wouldn't dare raise it'.*

If Rick hadn't wanted to take on the situation, it would not have been resolved. The whole family agree that the place would have been sold; gone. Rick's message is that unless there is someone who is willing to get in there and drive the process and say *'hey we should think about getting a facilitator to come along and at least open up some discussion about it',* it won't happen. In his view, the most practical lesson is that there is no downside in going as early as possible in planning. '*I can't think of a downside, even if people's circumstances change, because when they partner-up etc.'*

Rick described a big property, set up for two boys to come home, but one realised he wanted to be a tradesman. Because they got into it so early, it was actually a relatively seamless resolution. The two biggest lessons for Rick are the importance of going as early as you possibly can and understanding the fact that farm businesses and particularly farm family businesses, are unique. '*You often have this situation where someone has put in a disproportionately high level of input; blood, sweat, tears. How do you take account for that, like we had to? Also, how do you articulate that to other parties that don't really understand that?'*

Rick thinks that people need to be realistic and accept that the issues surrounding family farm succession will sometimes cause individuals to become very emotional. *'I don't think you should try and suggest- 'hey you need to just put the emotion to one side altogether', I just don't think that's realistic.'*

The Lessons:

> **Rick:** 'I suspect they were of a generation [and they are rapidly coming to an end] where in farming you could basically just toddle along, do a bit of this and a bit of that. Plenty of labour, fair bit of money coming around, plenty of commodities, cheap inputs all that stuff. That feels like a long time ago now.'

Rick's Ten Commandments are:

II. Start now.

III. Understand and respect each other's feelings.

IV. Commit to the process.

V. Commit to what is agreed.

VI. Equitable is not always fair (and vice versa).

VII. Seek and verify sound professional advice.

VIII. Set and adhere to 'ground rules'.

IX. In-laws can be 'outlaws'.

X. Observe and focus on the outcomes.

XI. Never lose perspective.

And the lessons from the Zeta family?

As well as Rick's Ten Commandments, it seems that previous generations were so caught up in community matters that they didn't concentrate on the farm. Rick's grandfather, the patriarch, was old school conservative. While he was managing the farm, he had a good run with the wool and generally solid prices. He ran at low input and kept selling bits off to pay the bills. He didn't like being challenged so few people, including family members, challenged him.

He managed to push the next generation away, only to recall one of his children when he was in his dotage and not capable of physically or mentally managing the place. The 'recallee' was expected to assist, but not really allowed to make any decisions. If Rick manages to create a viable business, it will be because of income from off farm investment.

<u>Case Study 13: Beta (*Kidman*) Family</u>

Business not continuing

The family lost control of the board.

The Beta family business is not continuing. The shareholders lost interest in the business and then lost control of the Board. The company was sold, in 2016, after a lot of public comment.

Because of the iconic nature of this business this case study starts with a conversation, rather than with a description of the business. The business will become apparent, but first imagine a conversation in a drought ravaged, much depleted, outback station store in the late 1890's. Two men are talking. The boss who has just arrived after a long, hot, dusty and dry ride on horseback asks:

> '*What are you doing?*'
>
> *'Storekeeping'.*
>
> '*What, storekeeping on an empty bag of sugar?'*
>
> He paid the men off, the wife of one, argued. He responded. *'If I don't pay him off, he'll have nothing. The only money I have in the world I have with me. When I pay you off I'll be stone broke*.'
>
> He stayed the night in the empty homestead. Next day he was left alone. On all his stations he had lost 35,000 head. Crows feasting on his cattle. He was totally crippled by drought.
>
> He heard the crack of a whip, a little later another, then another.
>
> Again, he heard the crack of a whip. Strange! No real drover ever returns empty handed to the crack whip.
>
> And again, the crack of the whip. Then he heard the lowing of thirsty cattle. Then he heard thunder.
>
> As it started to spit with rain, he met the drover who said, *'I've brought your cattle. I'm drover Gleeson, with 1,200 Avon bullocks for delivery. It looks like these storms are the break of the drought.'*

> *'They are!'* said Kidman. *'Look away to the East, black with falling rain! God be praised.'*
>
> It was 1901and the Federation Drought was disastrous for him, but within a year he had made £40,000[14] ($5.8M in 2016) and began buying on a large scale again.

The above account is a work of fiction, but it's based on fact. Many aspects of the Idriess account of the story are corroborated in the biography, written in 1987 by Jill Bowen, with research assistance from the Kidman family. Sir Sidney Kidman had no cash at the time, but he was far from broke. He still controlled a string of stations in SW Queensland. Bowen[15]wrote;

> *'If Kidman's estimated 70,000 [head] stock loss had been measured at the Avon Downs Bullock price in 1902, his loss would have been £857,500. That is $60.3 million in 2017.'*

Bowen corroborated the £40,000 figure (above).

> *'I went home and in ten months I had made £40,000[16]'*

By 1903 Sidney Kidman owned, or was a part owner of, 98,420km^2 of land and eventually owned, or had a large interest in, an enormous area of land. The empire is variously stated to have covered from 85,000 square miles (220,000km^2) to 107,000 square miles (280,000km^2), covering some 68 properties stocked with about 176,000 cattle and 215,000 sheep.

He could grow and fatten the cattle in the north and bring them through his string of stations to markets in the south. His stations provided good feed and water on the way, so he was able to sell them in top condition. Kidman, who was knighted for his services to the nation during the First World War, died in 1935.

S. Kidman & Co Ltd was once the largest private landholder in Australia. The entire landholding was placed on the market in 2015. It comprised eleven cattle stations with a total area of over 100,000 square kilometers and a herd of 155,000 cattle.

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[14] Edited extract and value taken from The Cattle King, Ion L Idriess Pacific Books pages 144/45

[15] Bowen, Jill. The Forgotten King. A & R 1987 page 117.

[16] Bowen, Jill. The Forgotten King. A & R 1987 page 120

Between the Federation Drought, which broke in 1901and nearly broke Kidman and it's sale in 2016, S. Kidman and Co had withstood two world wars, the great depression, the 1974 cattle crash and droughts in 1911-16, 1918-20, 1935-45, 1963-68, 1972-73, 1982-83, 1991-95and 2000-2003.

The company, which had proved to be extraordinarily resilient and had a total value publically estimated at A $360 million, was sold in 2016 for an undisclosed sum.

One of Kidman's great-grandchildren, Will Abel-Smith, the sole decedent of Sir Sidney who worked in the company, shared the story. The business was built on sound business principles. It was cautious, conservative and made sure that it could always pay its debts, cover depreciation, pay tax and provide shareholders with a solid return.

> ***Will:*** *'We've always been a pretty conservative business, not much debt really until we bought Helen Springs. We always said there are three points that we make; our net profit [will be used as] a third for tax, a third for shareholders and a third to re-invest in the business. If you're not putting that back in then you're going backwards.*
>
> *So [our rule was] always make sure that, whatever your depreciation number is, that you've got that back into your business every year.'*

The business went from about 100,000 cattle and about 20,000 to 40,000 sheep in the 1980's to running 235,000 cattle in 2014. The drought hit and they dropped back to 160,000 odd cattle. But the business grew quietly in a conservative way. There were times when the company nearly fell over. As well as the Federation Drought, the cattle crash of 1974 nearly tipped it over. Will hadn't started working in the business then, but recalls:

> ***Will:*** *'A previous Chairman spoke at our final AGM and said 'you know guys, I don't know if you all remember this, but in 1974 we had to sell our head office, we sold a number of properties to keep things going. We were gone [done for, finished]'. The whole thing was so close to being done and whether that [experience] shaped his thoughts going from then on, [because] he was around then, but he said 'to turn [the company] around and sell the things, we gave a very good share portfolio back to shareholders well over $400 million, that's a pretty good result. From being damn near broke, to returning a sum like that is a good result.''*

By any measure it was a good result. The company was travelling well so why was it sold? Will thinks that the former Chairman was very keen to get more advice. He was very much

the driver of getting independent people into the business. He kept pushing for more unrelated Non-Executive Directors saying, *'it's not a family business anymore, it's just a corporation and we've just got to push on'*.

> ***Will:*** *'The real reason that this got sold is because the family just felt disconnected from it. And there was [not] enough love of the business to keep it going. It just felt separated [from the family].'*

The principle of ensuring that a family business is run following the rules of good corporate governance is a sound principle. The business was large, geographically spread, subject to the vagaries of markets, government regulation (which for some months blocked its sale) and the weather. But at some point, the principle of following sound corporate governance caused the start of the disconnection from the business of the shareholders, who were all still members of the family.

> ***Will:*** *'There are probably a few different parts of it. The family have been kept out of the business over the years, I'm the only family employee, there were three family Directors.'*

The former Chairman decided that he wanted the business to be run as an independent entity, so in the end there were more independent Directors than Family Directors and the people who actually owned the business were the minority on the Board. Consequently, the shareholders felt that they were not as connected to the company as they were previously and started looking at things like rates of return.

As with most farm businesses the return to capital came from two sources. Part of the profit came from operational activity and part from capital gain. The majority came from capital gain, which isn't liquid and cannot be distributed until assets are sold. When they did the numbers, the rates of return were actually reasonably good. With capital gain and cash returns of 1% to 1.5%, the company was consistently returning 7.5% to 8% to the shareholders.

> ***Will:*** *'Unfortunately the capital you can't get to - you can't eat it unless you sell it. So, the small cash return of 1.5% to 2% wasn't exciting people, who therefore, weren't as connected to the business as they were previously. I was pushing for change because I'm the closest to it and I had another cousin who was trying quite hard to get family back in control, but it didn't win enough support.'*

Now that the company has been sold, there are some family members who regret the decision. Perhaps this regret is driven by nostalgia, perhaps it is because the cattle market is at a very high level and perhaps it is because, at the moment, it is hard to find an investment with a comparable return at a comparable risk. Whatever the reason, there is more than a little regret in the family that it has been sold.

> ***Will**: 'Now it's funny, there are enough people [family members] now who would have loved this thing to keep going and are upset now that it might have happened, that if they had backed family, but at the time they just weren't going to do it. They just weren't prepared to change the rules or re-think how it happened.'*

The business was five generations old and was effectively owned by nine people. There were about twenty-five family shareholders who might have had 1,000 to 5,000 shares and about 25 or 30 outside shareholders who owned 2% but they didn't have a lot of impact. The vast majority of the company was owned by nine family members.

> ***Will:** 'So we were sort of at the point where something had to give and we couldn't pull it together.'*

Will believes that if he had been able to get the older shareholders to think about it more, they might have voted to keep the company. But they weren't going to make a decision until they were pushed to the edge. *'And then, by the time we got to the edge, it was too late*.'

When he talks to these people, some say '*Oh we could have saved it'*. But Will says that they '*should have stood up a bit earlier.'* There are some who may have regret, but the majority wanted to sell and most of them are happy with a good result, selling at the top of the market. Ultimately, they all did very well, as the price paid was well above valuations.

The lesson of this case study is crystal clear:

1. In any family business, shareholders must remain in control of the Board.
2. The company had withstood everything that nature, markets and governments could throw at it. It had come back from the brink of financial ruin on at least two occasions. But it could not withstand the disinterest of its shareholders.
3. Agricultural investments require patient capital and to be patient, shareholders may want to be involved.
4. There was no company succession plan. Either it would be kept, or it would be sold.

<u>Case Study 14: Theta (*Kininmonth*) Family</u>

Business not continuing

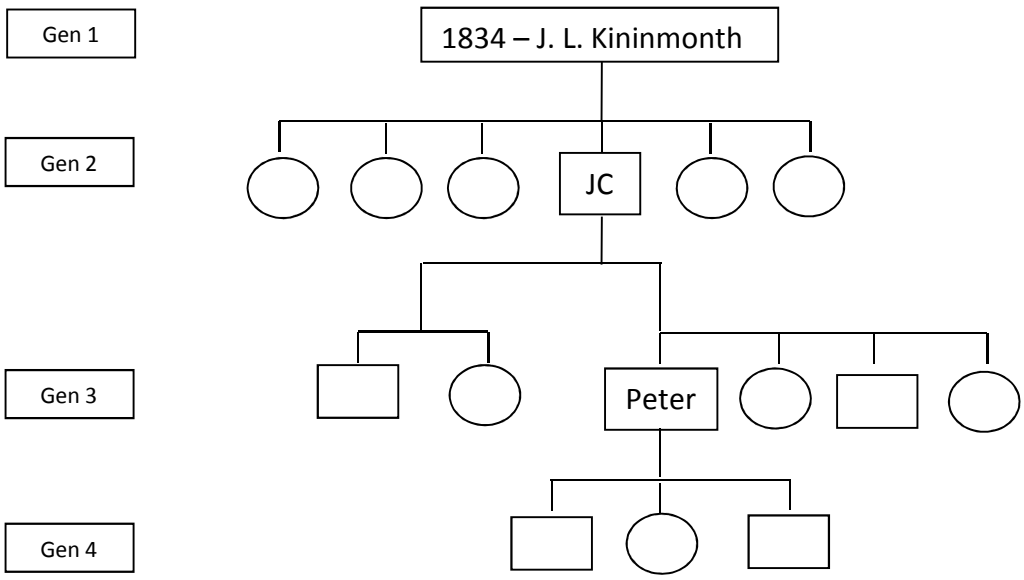
There were too many shareholders.

John Highett and William Harding formed a partnership and were granted 'A Licence To Occupy The Waste Lands Of The Crown' for a fee of 10 pounds in 1837. The area they chose was Mount Hesse, 'Run number 1', covering an area of 18,500 hectares (ha).

James L Kininmonth, the Manager and partner in the neighbouring 'Barunah Plains', bought Mount Hesse, now 6,500ha, in a walk-in walk-out sale. J L Kininmonth had six children, including one son, James Castairs (Jim) Kinimonth.

Jim Kininmonth employed an Overseer who ran the property very successfully with around 16,000 sheep and 150 cattle. The overseer retired in 1926 leaving management to Jim, who managed the property on behalf of the whole family. J L Kininmonth, in an unusual decision for the time, had left his estate equally to his children, so Jim was a one sixth owner. Two of his sisters married and went to live in England. One didn't marryand another one married, but did not have children. Nevertheless, there were five 'breeders' in Jim's generationand Jim married twice so the number of potential owners was beginning to escalate. Figure 1, below, shows the Kinnonmonth family genogram.

Figure 1: Kininmonth Family Genogram



1952 - Peter Kininmonth

In 1952, aged 22, Peter Kininmonth (one of Jim's children from his second marriage), took over the management after the death of his father. At that time the property was 6,500ha, had 22 staff and carried 16,000 sheep, with 450 cattleand 42 horses. The Soldier Settlement Commission acquired 2,950ha, leaving the property with a total of 3,550ha in 1956. By the mid 1980's Peter had increased the carrying capacity through improved pastures, superphosphate, labour and time saving technologies, to 20,000 grown sheep, 452 cattle and 120ha of crop, managed by a permanent staff of four. The business was humming.

1990 - David Kininmonth

The current manager, David Kininmonth, took over the management in 1990and like his father, was almost immiediately faced with a difficult situation. Having produced the record clip of 124,000kgs of wool in 1989, the end of the reserve price scheme led to a dramatic fall in profitability of merino sheepand to major changes in direction at Mount Hesse. The property enterprise mix was diversified, although still having wool and sheep meat production as the main focus.

> **David**: 'I had to go through 89-90 transition where the income went from $1 million to $300,000 in one year. We had five staff on and everything that goes with it.'

At that point the major enterprise was wool. There was a mini wool boom and David recalls that '*Australian Wool Innovation's predecessor was buying all our wool for inflated prices, it was an absolute disaster'*. David's way of getting through those tough times was to keep the staff and shareholders engaged and let them know that they are doing things and that the property was being maintained*. 'The gates were hanging and buildings had new spouts on them, all that sort of maintenance was done.'*

One of the reasons David was so keen to ensure the place was well looked after, was that he was a family member, although not a shareholder and he was working for the Trustees to keep the business profitable and ongoing. That was what he was asked to do. To do that, when times were poor, he needed to have engagement with the shareholders. *'My way of having engagement with the shareholders was to let them know that we are actually doing things even though the financial returns were poor'.*

The shareholders were very supportive right up until David's time as Manager. They liked having a share in Mt Hesse, especially the two English families. They found that this was their link to Australia and their kids came out to stay and worked on the farm. But at the end of the day the shareholdings became too small, there were too many people involved to keep them all engaged.

> ***David**: 'It was really Dad who drove the decision to sell. He could see that it would be necessary one day, mainly because of the unequal shareholdings, so it was best to sell it at a time and in a way, which would give the best result.'*

The unequal shareholdings had started in David's Father's generation because some families only had one son, or one daughter and other families had two. Some families had one sixth and others had a one seventieth share. The shareholdings were only going to become more uneven as time passed.

The method of sale was unconventional. Rather than only appoint an agent, they decided to seek expressions of interest from likely purchasers. They did appoint an agent, but the trustees handled all the negotiations. They were not in a hurry and wanted to sell on a 'walk in walk out' basis, this would ensure that they would get paid for the intangibles of the business. They were very selective, had very few inspections and from when the present owners first showed interest, until the deal was done, was only a matter of weeks. *'In the end they had an inspection, we all had dinner together and they accepted the pre-prepared contract virtually without amendment.'*

David has found that managing for a family corporate rather than for your own family required a big transition. The biggest difference is that with family ownership all profits were distributed and for a Manager that makes it very difficult to do any capital improvement. The Trustees had a limitation to borrowing money, so when Mt Hesse was sold it had an overdraft of about $120,000. It was only short term so that would have been covered by the wool sales in a couple of months and then cleared. They would have $400,000 to $500,000 sitting in the bank earning one or two percent. '*But today it's very different, they want to see the property developed. They are happy to leave their profits in the company basically to go into improvements*.'

It took the new owners a little while to understand how a farm is so different to factory. *'In a factory, absolutely everything they do depreciates'*. For that factory to survive, it needs a pretty high profit margin. Most farms have a low profit margin, but significant capital gain.

The key lessons from the Theta study are:

1. Keep the shareholders engaged.
2. Be aware of the dangers of parcels of shares becoming diluted.
3. Have a shareholder agreement which sets rules about the dilution of holdings.
4. Ensure that the business is 'sale ready'; that means having it ship shape.
5. If you sell, sell on a walk-in walk out basis, where the intangibles are valued and paid for.
6. When selling a 'trophy property', manage the sale carefully.
7. In this case, unlike the family, the corporate owner is prepared to continually re-invest the annual profits.

Case Study 15: Delta Family

Business not continuing

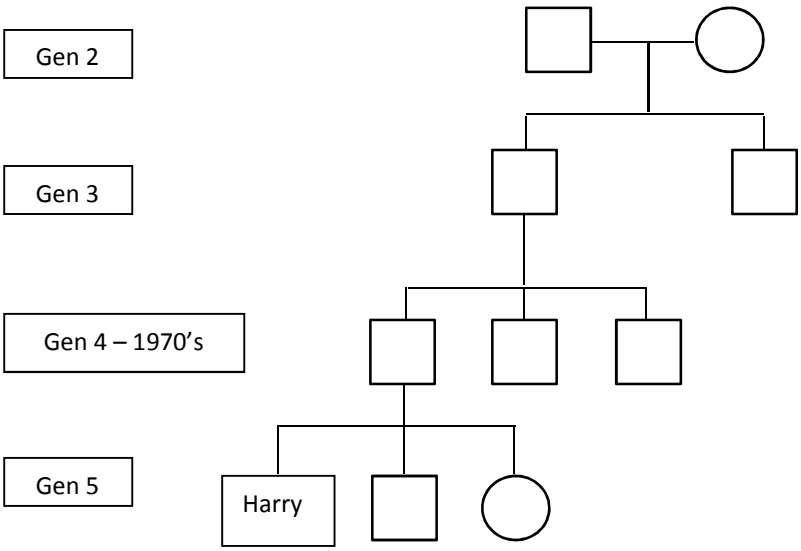
They built it and then spent 20 years arguing about how to cut it up.

How could a family that had managed to grow a farm from 1,200 hectares (ha) to 5,300ha over a 50-year period, end up selling it at a fire sale? And how, at the same time, did a business which was so successful end up a failure?

The Delta family ran a very successful sheep, cattle and cropping business in the 730mm rainfall belt west of the divide in southern Australia.

The second generation handed over ownership to generation three when the eldest of that generation was in his mid-twenties. Generation four took over the management and ownership of the land and the stock and plant in the 1970's. The eldest was in his late teens. This story about generation four is told by Harry, who is a member of generation five.

Figure 1: Delta Family Genogram



Harry's father was the eldest of three boys, who were given the original property through a death duties transition, via their father, when they were quite young. Harry's father was only seventeen. The farm was about 1,200ha at that stage and over the years they built it up to 5,300ha.

The expansion and development plan was simple. As soon as they had enough livestock to stock all their land they would borrow and buy more land to grow crop. They would crop it for three years, then develop the pasture with cattle grazing for two to three years. Then it was used for sheep grazing for four years. Although the relationship between the brothers was often tense, they agreed on the big-ticket items.

> ***Harry:*** *'From a management perspective, even though the boys couldn't agree on what colour the sky was, they agreed on the management and growth strategy.'*

One brother looked after the cattle, which he ran very well. The middle boy looked after the sheep enterprise and some of the pasture rotations, which was also run pretty effectively. The youngest looked after the cropping. They all had their own cost centres which they each had their own control over. They were keen and worked hard to improve the productive capacity of the property, including pasture renovation, spreading super, fencing and other general maintenance tasks. Even though they had their issues, they were production focused and that is how they were able to grow the farm, whilst minimising the discussions between themselves.

The use of fertiliser was high. The growth to 5,300ha was as steady as the final sale was abrupt. Harry explained how the business was managed.

> ***Harry:*** *'One of the things they set up was rotations, which worked like clockwork. There was a ten-year pasture rotation. Of that three years was cropping, the cropping just rolled around regardless of pasture quality.'*

The Delta brothers killed some beautiful pastures over their time, but they were just in time to go for the rotation, there were too many weeds. Within the seven-year pasture cycle, the first two years was always cattle, to allow easier grazing pressure on young pastures. Sheep would have it until it came back into crop.

There was no argument over land usage, as they had an effective management system of the rotations. The whole place was split into blocks of about 160 to 200ha and each block had four or five paddocks. Then it was a matter of one, two or three rotations until it was ready for crop again.

Although there was tension between the brothers, they managed to keep out of each other's way by dividing responsibility for the management of the sheep, cattle and crop.

> ***Harry:*** *'That was all agreed upon and they all knew that was a good way to manage the country. That worked well, it wasn't an ad hoc process at all. All three of them had pretty good management capacity and knew their enterprises. I don't think budgeting was a problem back then, they just knew it was going to pay for itself and they just did it.'*

The business was very successful and the brothers knew that eventually they would need to split it to allow each of their families to control their own assets. Over a period of twenty years the brothers engaged and then dismissed, some of the most successful succession planning professionals in Australia.

> ***Harry:*** *'Consultants were engaged, initially just to assist in benchmarking and all of them were pushing the family to look at succession planning. At the end I think we went through 13 succession planning facilitators all with their pound of flesh on the way through.'*

This raises one important question, was there something wrong with the family, or were the facilitators not up to it? Harry describes:

> ***Harry:*** *'Well some of the facilitators I don't think were up to it, I got involved in the succession planning process when I finished University. I actually did a proposal in my third year [Farm Management] to run the property as a corporate, set up a Board structure, pay dividends etc.'*

That proposal was rejected, as was the suggestion that a farm management lecturer (who was a respected succession facilitator) be retained. The family almost had an Aussie rules football team of succession planners. Each time they ended up with no agreement, no progress and a bemused, confused, sometimes slightly damaged succession planner. One after the other they would be dispensed with and then the brothers would start again with a new planner.

> ***Harry:*** *'This is where the story is a bit murky.'*

Harry has spoken to two or three of the succession facilitators about what was actually happening. The brother (one of Harry's Uncles) who didn't want to relinquish or lose control actually threatened facilitators. This brother was actively trying to stop the process. One facilitator that they had engaged towards the end, vowed never go in a room with Harry's uncle again. The words used to describe the situation to Harry were that his Uncle *'was physically threatening*.' In the Uncle's view, the facilitator was pushing too hard. According to Harry his Uncle used scare tactics because of what was happening. There was a repeated process of stop-start facilitators and his Uncle knew that if the current facilitator was stopped, there would be another gap of twelve months before another facilitator was engaged. Whatever way he could stop the process, he brought himself another eighteen months.

A really surprising aspect of this story is that Harry's parents managed to shield Harry and his siblings from the feud. 'Mum and Dad were good about it. We went to all the family functions and kept the peace, I wasn't aware of it until I came home on the farm.' Harry felt that the succession planning would work.

> ***Harry:*** *'I thought that we would have been able to do it, but it was all lip service. Day to day management things were fine, we made good decisions and we worked through that, but trying to transition to the next generation when we were purchasing other country and things like that, it was all lip service for what his [the Uncle's] total intentions were to be.'*

It resolved when the brothers eventually decided to appoint a liquidator to sell everything. The 'controlling' brother tried, once again, to play for time, but eventually had no alternative other than to sign the agreement.

There are four lessons in this study:

Lesson One - The farming lesson was a good news story. The business grew in size and value and it went from 5,000 DSE's to 50,000 DSE's, with about 70% equity. The starting capital in 2016 values was $1.8 million in land, plus stock and plant valued at about $450,000, giving a total of about $2.2 million. This was grown to a real net value of $7.4 million.

Lesson Two - Failure to agree on how to dissolve the partnership led to liquidation and a fire sale at about a 40% discount. The fire sale did help the continuing farmers, but financially hurt those who retired.

Lesson Three – The method of the engagement of the succession planner. Although it was not apparent at the time, one of the brothers had a history of interfering with, putting pressure on, being heavy handed and on occasions threatening the current (at that time) succession planner. As soon as the planner appeared to be making progress this family member would interfere, change the rules, apply pressure, throw in a 'curveball' and stop the progress. The lesson here is that when multi members of the family are engaging a succession planner, they need to have a set of rules that if any of the individuals talks to the planner, that planner is free to share the essence of the conversation, if not the detail, with the rest of the family members. A succession planner who takes sides, or even reluctantly has the ear of one family member, is unlikely to be able to succeed.

Lesson Four – The shareholder agreement. If the family had a shareholder agreement in place with a way of forcing a buy-sell arrangement they would not have ended up in the situation that they did. Such buy-sell agreements can be quite cutthroat in their nature however they do provide a mechanism to allow resolution of the issues. In this case, the final resolution came by the family having a formal legal mediation process, during which it was agreed to liquidate the properties.

It didn't take long for the word to go around the district that it was a fire sale and although some of the family members were able to purchase land that they wanted at a reduced rate, the net financial effect on the family was negative. The cost of the liquidation is in the millions of dollars. This is made up of time, legal and accountancy fees, lowered production towards the end of the company and the fire sale of the assets. The emotional cost was huge and the family is fragmented.

Case Study 16: Tau Family

Business not continuing

'We had succession sorted. Then the next gen farmer changed his mind.'

The Tau family thought they had succession under control. The farm had been in the family since the 1870's. But because of a death during World War Two and as a result a childless widow, the farm passed to the current branch of the family in the 1970's. The farm had been conservatively managed and was in reasonable repair when Tom Tau took over. Tom was appropriately trained and had a good level of practical experience. There was a lot of room for improvement, but the farm was in reasonable condition.

Tom and his wife Ruth, settled in, started a family and began to develop the farm. Roll the calendar forward to the early 2000's and the Tau's have three grown children, one of whom is working on the farm, while the others have followed other chosen professions.

The farm, of about 730 hectares (ha) in the 550mm rainfall belt, is mostly arable. Whilst it was big enough to create a satisfactory level of income for Tom and his family, it was obvious that it lacked the scale required to sustain another nuclear family. One of Tom's children, Mick, had shown a passion for farming. He had appropriate tertiary training and following some years working on other farms, came home to assist; with the aim of taking over management and eventually the ownership of the Tau family farm.

As Mick gradually started to assume management control, the first step in growing the business was to lease some land. But that wasn't going to grow the business quickly enough. Particularly as Mick had married Sue and they had started a family.

In an effort to get scale quickly the family set up a three- way partnership with Tom and Ruth having one third, Mick and Sue with another third and an unrelated neighbouring family held the other third. Each party leased their land to the New Farm business at around $60 an acre (about $150/ha). Mick was appointed the Manager of the business operations, Tom was an employee and there was one other full-time employee. The

New Farm business was run under a board structure and the families were equal voters. They took on more land under this structure.

> ***Tom:*** *'I think the Tau family bought in about 730ha and the neighbouring family bought in about 610ha and we leased about another 610ha nearby.'*

The business of New Farm was formed in 2002 and continued until 2011. Together the neighbour, who was the prime motivator of the whole concept and the Tau family put in significant effort with meetings, planning and drawing the whole plan together. '*The gestation period was probably a good two years I reckon.'*

It appears that in terms of income generated, the arrangement worked and all the landlords were happy with rent at around the $150/ha. Tom was happy because he still had a job within the business for a significant part of that period. It was travelling well until Tom sold his share in the business to Mick and Sue. The viability of the business was ok at that level of rent, but buying the shares put stress on Mick and Sue because they had to borrow the money. '*That's where it started to get a bit trickier for them, even though they were both employed in the business on what we all thought was a fair and reasonable wage of the day.'*

The millennium drought occurred during that period and affected the business, which had ups and downs, but they managed their way through that. They were farming 2,000ha at that stage and had 900ha under crop. There was certainly an affect from the dry and it's continued to this current day. But the drought wasn't the problem. Buying land wasn't the problem because Mick and Sue had been given 162ha. The problem was funding the extra stock. '*The cash requirement of them was to buy extra livestock, or to buy out our share, that's where it started to get tricky.'*

New Farm had some pressure because of the lease it was paying, but it was still profitable. When asked whether New Farm had delivered the economies of scale which had been anticipated, Tom replied '*it certainly wasn't making the money that was planned.*' When asked why not, Tom responded*, 'it's a good question and I don't know whether we ever really got the full answer to it*'.

But the promised returns did not eventuate. Mick and Sue were not feeling comfortable with the degree of pressure they were under and decided to withdraw from New Farm

and from farming altogether, deciding to sell the land which had been given to them. There was an element of *'we're getting out of our depth as far as debt was concerned.'* In Tom's view, the debt was manageable, they weren't paying off land. But they wanted to purchase land and didn't have the collateral. Tom suspects that they were looking at others of their cohort who have an easier ride in other businesses. '*Perhaps it's a case of grass is greener over the fence. That may not be a fair comment. I just don't know.'*

Mick and Sue's decision to depart was a shock to Mick's parents. There were certainly concerns raised by the younger couple, but there was plenty of opportunity for everyone to express their opinion - *'Whether they did or not is another point'.* Tom concedes that the whole business of pulling family and friends together is a very tricky business. Whether it is fathers and sons, daughters and mothers, or just friends. In their case it was a combination of all of those parties, it is '*probably fraught with a lot of dangers', e*ven though they all had the best of intentions to achieve goals that were good for them all. Tom notes that *'when you're all together, sometimes you don't necessarily say what you think.''*

The whole concept worked for nine years and then it stopped because Tom thought that it was appropriate to sell their share out Mick and Sue. That allowed them to grow their personal business and it gave Mick a controlling interest in a business which they all thought would go ahead. Tom notes that '*at the end of that nine-year period we were all rocked a little bit when Mick & Sue decided- well we don't want to do this anymore*.'

But in any event, family relationships have been maintained on an even keel. Although Tom and his wife were extremely disappointed to see the plan fail, they still have a lot to do with Mick & Sue and enjoy spending time with them and their grandchildren.

Tom's eldest son will now take on the farm, but it's smaller because Mick and Sue sold off 80ha to finance the house they now live in. Mick still owns 80ha, including the homestead and woolshed. This is complicating issues for the rest of the farm viability, in that the sheds and yards and are still part of Mick's property. The family has reached agreement and their eldest son, who has decided to come back to live on the property,

will live in the homestead**.** Tom outlines that his eldest son 'will buy that 80ha which includes the homestead, sheds and yards, from Mick if and when it's possible to do so.'

This poses the question, 'What if Mick needs the money in the mean time?' A vital part of the farm, including important infrastructure could be sold to an outside party.

> ***Tom:*** *'It will get tricky won't it? He may be able to mortgage it. Maybe our eldest son will buy it. It just depends on his ability to put up the money to buy it in the future, but there seems to be agreement that that should happen to maintain the operational viability of the farm as it is now.'*

There are inherent dangers in leaving the situation as it is, but at the moment no-one has the resources to do anything about it.

The Tau story is a cautionary tale. On the face of it at the time the family followed copy book process. The deficiency was to ensure that in the event that Mick changed his mind and decided not to continue farming, that there was a mechanism in place to ensure that the land could not be sold outside the family for a predetermined period. It is commonly known as handcuffing.

There is a postscript to this study.

Following the interview process and reading this study Tom discussed the situation with his lawyer and accountant. As a result of that discussion Tom's eldest son, who now lives in the homestead, has found the money to buy the land containing the homestead and sheds from Mick.

The important lessons from this study are:

1. Building scale doesn't automatically mean increasing profitability.
2. There is always the possibility that the person who returns to manage and take ownership of the farm will change their mind. The implication of that possibility should be considered.
3. Gifting land without some guarantee, handcuff or undertaking from the person who receives the gift is a dangerous move.
4. Allowing a situation where a key parcel of land, including all the important infrastructure, can be sold to an outside party is also dangerous.
5. Relying on goodwill could have created a dangerous situation.

6. That in a business which was expanded in cooperation with family members and neighbours that it was the decisions of the family members, not the neighbours, which caused the venture to fail.

APPENDIX 6: EXTRACTS FROM 100 HISTORICAL RECORDS

Historical Record 17

- The father in generation one had a small farm, generation two siblings fought each other. Current owner in generation two worked off-farm in order to build the business into a viable business. Generation three and have fought generation two.
- Generation two/three: Business continuing; funds from family and off farm; grew to enable succession however succession failed; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 18

- Generation three inherited a large farm virtually unencumbered, managed it conservatively and handed over to generation four with an uneven share.
- Generation three/four Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 19

- Generation one purchased a farm each for the two sons in generation two. The share from generation two to generation three has not been equal.
- Generation two/three Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 20

- The grandfather of generation three set up a small farm. Generation three built the business but with great debt. The share to generation four has been unequal.
- Generation three/four Business continuing; funds from family and off farm income; grew to enable succession but succession failed; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 21

- Generation four was an only child who maintained the farm in a profitable way. The share to generation five has been unequal.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 22

- Generation two set up the farm so two brothers had an equal share. The brothers share equitably. The share to generation three has been unequal.
- Generation two/three Business continuing; funds from family and spouse; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 23

- Generation one purchased the farm and generation two the ownership was equal, but one of the siblings farmed and eventually bought the other out at commercial rates. In the current generation the share of family assets has been unequal.
- Generation two/three Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 24

- Generation three now farming, generation one sold a small farm in another district and bought a large farm to set up generation two. Generation two has farmed very successfully and the share going to generation three will be equal.
- Generation three Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 25

- Generation two inherited the farm and the attempted share to generation three was unsuccessful and at some stage in the near future the farm will be sold.

- Generation two/three Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 26

- Generation three inherited the farm in an uneven share between brother and sister. Generation three has built the business and the share to generation four is likely to be even.
- Generation three/four Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 27

- Generation three farming. Capital in order to grow the business also injected from generation three's spouse. Share to generation four likely to eventually be equal but sorting out who owns what is still problematic.
- Generation three/four Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 28

- Generation four now farming was the only sibling of his generation to receive any Minor capital. Share to his generation was uneven. Attempts so get generation 5 involved have been unsuccessful and the future of the farm is in doubt.
- Generation four/five Business not continuing; funds from family; did not grow to enable succession; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 29

- Generation two managed to hang on to the farm under incredibly difficult circumstances following the cattle crash and built the business. There have been further injections of family capital into the business and the share to

generation three has been unequal on the grounds that one of the siblings spent a much longer period of time working on the farm than the other.

- Generation two/three Business continuing; funds from family and off farm; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 30

- First generation farmer died over a decade ago, widow carried on farm with assistance from one family member. No clear succession in place. Other family members recognise that the farming family member should get a greater share, but no agreement as to the amount. Farming family member wants to receive the farm unencumbered.
- Generation one/two Business not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 31

- In generation two, two brothers shared the assets equitably and brother A, who we will follow, sold his share, bought a larger farm, paid it off, bought a larger farm, paid it off and bought the current farm assisted with consistent off-farm income from his spouse. Situation now, father and son not working well together. Farm will almost certainly be sold.
- Generation two/three. Business continuing; funds from family trading farms and off farm income; grew to enable succession but succession failed; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 32

- Second generation farmer worked with his widowed mother to provide for her and his family. Farm always battling to be viable. After years of battling the business achieved viability the farm became viable and there was an opportunity for the next generation to join the business. Father and son fought making succession impractical.
- Generation two/three. Business continuing; funds from family; did not grow

to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 33

- Third generation, two farming brothers – one decided to sell and the other agreed to buy. This has put the business under great financial pressure. At time of writing the farm is still successful but has a high debt level. It will be difficult to have equal distribution of funds between the next generation and to maintain a viable farm.
- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 34

- The second generation was given the farm in an undeveloped state. His brother was given the family farm and other siblings were given an amount which he assumes to be less than he received. The family wanted the farming son to be able to continue and so made resources available for him out of proportion to the non-farming children. The non-farming siblings were unhappy with the situation, particularly because the farming son hadn't shown a particular interest in the farm until later in life.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 35

- In the fourth generation, three brothers managed to share the farm assets evenly and amicably. Those farmers farmed with a varying degree of success. In one family there are significant off-farm assets and the distribution will be equal. In the second family there are also significant assets, but the distribution amongst the next generation will not be equal and in the case of the third family the distribution will not be equal and the relationships are difficult.
- Generation four/five. Business continuing; funds from family; grew to enable

succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 36

- The first generation was a second war soldier settler with a successful business. Handed on the farm to one of his children but retained autocratic control. The second-generation farmer tired of farming and handed over the farm to one of his children who has run a successful business, but the eventual ownership is still unclear.
- Generation two/three. Business continuing; funds from settlement scheme; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 37

- The first-generation farmer died suddenly leaving widow and children to assist in the management of the farm. There was no agreement as to the share or recognition of the contribution made by the farming sibling. The end result was that the farm was sold and the assets shared.
- Generation one. Business not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; even share.

Historical Record 38

- Small farm with funds initially through profits off contracting. Two brothers, father very much in control. Difficult for the brothers to find their place in the world. Eventually harmoniously arranged, one brother farming independently from his father. Father still farming, other brother out of the business. Distribution unequal.
- Generation one/two. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 39

- Third generation farm. Father died young. Three brothers did all they could

to attempt to maintain the farm. Went through a rough patch of high costs and high interest rates of the 1990's, low wool prices, tried alternative crops. In the end it became too hard, farm sold and assets distributed equally.

- Generation three/four. Business not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; satisfied family; even share.

Historical Record 40

- In generation three two brothers each got a farm of approximately equal size. Brother A, who we will follow, had four children, one of whom worked on the farm. No succession plan was in place, without reference to anybody the father sold the farm so that the assets could be distributed equally, but no recognition of the contribution farming son.
- Generation three/four. Business not continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 41

- Generation one was a successful soldier settler from the first War. Distribution to generation two was uneven. Two brothers in generation two built a significant business. One brother had no children, the other brother had a large family including three farming Children. The sharing was difficult to arrange and acrimonious. The acrimonious nature of the relationship has carried on.
- Generation two/three. Business continuing; funds from settlement scheme; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 42

- Generation one started with a small farm and handed it on to generation two, two brothers of four siblings. Two brothers worked well together and decided that they wanted to share the business but their financial advised them that it wasn't possible. It was possible, but they delay in the share but great pressure

on the families. Eventually the spilt was arranged amicably between the brothers, but their sibling sisters believed that they were not adequately compensated.

- Generation One/two. Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 43

- Generation two, there were two brothers – one drew a soldier settlement block and brother A, whom we will follow, maintained the home farm. Brother A had four children, one of whom wanted to farm but all siblings wanted to be involved. All family members are involved in the ownership of the land. Two brothers are involved in the business and the eventual ownership of the land is still uncertain. The result is unlikely to be amicable.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 44

- In generation three, the three brothers farmed together successfully for about twenty years. One brother took his share and sold his farm, one brother and had no issue and the third brother C, who we will follow, had four children. There is no way the farm can be viable if the share is anything like equal. The farming child now runs another business as well as farming and it remains uncertain as to whether he will own the land. He has taken over ownership of the business.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; satisfied family; not an even share.

Historical Record 45

- Land which had been left to two non-farming children had later been gifted to the farmer: The farmer had convinced his father that in order to secure the

future of the farm a title on a sizable portion which was Willed to the non-farmers, should be gifted to him. When the family solicitor (then in his 80's) asked the father (also in his 80's) 'What about your Will?' the old man replied, 'The Will's fine' When the old man died the farmer told his siblings what he had done, the siblings sought legal opinion and found that they had little chance of winning a court action. They did not proceed.

- Generation three/four. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 46

- Generation one passed smoothly to generation two, but by the eldest son inheriting the farm. In generation three, husband and wife both worked in the farming business and were seeking some certainty about the future. After a long (20 years) contribution and many unfruitful arguments about the eventual ownership of the business and the farm, Generation 3 walked away from the business.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 47

- The father of generation two inherited a small farm and with the help of his sons, built up a very large business with four sons and the father all working in the business. Several attempts were made to put a management structure in place which would allow a smooth operation, but the father retained autocratic control. The business is still intact – although one son has walked away and another is threatening to. The future of the business and the eventual ownership is uncertain.
- Generation two/three. Business continuing; funds from family; grew to enable succession but succession failed; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 48

- The father in generation one built the business with some resources from the farmer's spouse. The business also had a significant contracting arm. Several attempts were made to get an equitable way of sharing business, recognising the fact that two of the children had worked in the business for prolonged periods of time. The future of the business is unresolved but one of the sons has taken a minimal amount of capital and gone out on his own – he started a very successful business.
- Generation one/two. Business continuing; funds from family and associated business; grew to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 49

- The father in generation two sold his farm in marginal cropping country and moved to higher rainfall country. In an attempt to grow the business to allow an equal distribution of assets between his three children, he tried to expand the farm very quickly and bought too much machinery, took too many risks, got into too much debt and the end result was that the farm was sold.
- Generation two/three. Business not continuing; funds from family; grew to enable succession but succession failed; no funds to retire; not a viable farm; satisfied family; not an even share.

Historical Record 50

- The first-generation farmer handed over the farm to the eldest son, who had four children and died in middle age, leaving his son to carry on the farm on behalf of his widow. Son carried on the farm until his mother, widow of the second generation died. At that point the Will left the greater proportion of the farm to the son, however the son attempted to keep all personal possessions (goods and chattels) and as a result there was a legal case which resulted in the son receiving a smaller percentage of the goods and chattels and less farming land than he claimed.
- Generation two/three. Business continuing; funds from family; did not grow

to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 51

- The shareholders in the farming enterprise were both farming and non-farming siblings. The family had a land-owning company which had not ever collected rent from related tenants. As a result, no dividends were being paid and the non-farmers were receiving no benefit. Further, there was no compulsion for the farming shareholders to buy the city-based shareholders shares. Similarly, without the Director's consent the city shareholders could not sell their shares to unrelated parties.
- The non-farmers were aggrieved at receiving no income, their share value being deflated and their farming siblings having free use of the land, even though the custodians paid the rates and spent significant capital improving the value of the land.

  The case was settled out of court in favour of the non-farmers, after a substantial investment in professional fees and the emotional cost of dividing the family.
- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 52

- The father in generation one ran businesses away from agriculture and left considerable wealth to generation two. Generation two was unaware of the extent of the wealth until late in life. Generation two has four children, some of whom want to farm, but because of the lack of preparedness of generation two for handling the wealth, generation two is now autocratic about the way the wealth is distributed. It is likely to be distributed equally but has caused a great deal of angst.
- Generation two/three. Business continuing; funds from family; did not grow

to enable succession; funds to retire; viable farm; not a satisfied family; even share.

Historical Record 53

- In generation three, three children owned the farm equally. On the death of one of the three, one child took absolute control and froze out the remaining sibling. Although the eventual ownership of the land is uncertain, there has been a long period of time when a sibling who has a third share of the farm has been unable to have comfortable access.
- Generation four/five Business continuing; funds from family; did not grow to enable succession; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 54

- Generation three died in his young forties, leaving a widow and his young children. Generations three's brother controlled the farm, controlled the estate, was the sole executer and together with his father, the father-in-law of the widow, made any management of the farm at reasonable lease value very difficult. The farm will remain in the family, owned equally by the four children but is not viable.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; satisfied family; even share.

Historical Record 55

- Generation one bought the farm in mid-life having had a successful career and using his spouse's capital and borrowed funds. The farm was barely viable, but generation one with the help of off-farm income managed to keep reasonable cash flow. Generation one died, generation two was able to take over the farm, but not to buy out his siblings. It was consequently agreed that generation two would assume ownership of the farm and its debt.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even

share.

Historical Record 56

- Generation three inherited the farm '*lock, stock and barrel'* and had three children. None of the children worked on the farm, but each made a claim when generation 3 died that they should get more than one-third. End significant legal argument.
- Generation three/four. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 57

- Generation three purchased the farm and had three children. One worked on the farm for a considerable period and, after a great deal of tension and distrust between family members, succession which enabled the farmer to have a viable farm, was achieved. The distribution was not equal.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 58

- In the previous generation one child was left the farm and the others were left some chattels. In this generation no family member is in a position to buy siblings out. Future unresolved
- Generation five/six. Business continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 59

- Generation four was handed the farm and his siblings got a modest and unequal payout. Generation four worked the farm and managed to earn significant off-farm income. The farm is unviable and it is likely that the endpoint is that it will need to be sold and the assets distributed amongst his

four children.

- Generation four/five Business continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 60

- Generation one handed the farm over equally to three brothers in generation two. One brother didn't marry. The other had two children and handed over the farm to one. The other child received a smaller share. The farming child now, in generation three, has three children which he wants to bring into the business. The farm isn't big enough to allow or to support four families, probably not big enough to support two. The endpoint is as yet unresolved.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 61

- Generation two had to buy out siblings so the farm was a struggle financially. In order to provide a viable farm for gen three the share is uneven
- Generation two/three Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 62

- Generation one built a significant farming enterprise and handed it over to generation two, where four brothers worked together and built the enterprise to become even larger. One of the brothers, Brother A whom we will follow, continued to farm successfully with the assistance of one son. Another of his sons wanted a payout early and his daughter also expected a significant payout. The business of succession has caused great tension within the family and the distribution will not be equal.
- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even

share.

Historical Record 63

- Generation one purchased the farm with capital accumulated from a city business. The farm was left to generation two, where one brother bought out his siblings. Generation three continue to own the farm and have it professionally managed. However, there is no agreement in generation three about the eventual ownership and unless one of the members of generation three is able to buy out the others, it is likely that the farm will be share.
- Generation three. Business continuing; funds from other business; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; even share.

Historical Record 64

- Generation three purchased the current farm with money from his family and significant borrowing. Generation three then built the farm to become a significant farming business and tried to ensure that his three children could all work within the business, however the father was autocratic and not inclined to allow his children to make decisions. He also borrowed heavily. The net result is that two sons have now pursued other careers and one son is farming a non-viable farm.
- Generation three/four. Business continuing; funds from family; grew to enable succession but succession failed; funds to retire; not a viable farm; satisfied family; not an even share.

Historical Record 65

- Generation three inherited significant property and more than one farm and had two farming sons. He managed to fight continually with his farming sons, causing great disruption to the family and to the business. The long-term future of this farm will not be resolved until generation three dies.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 66

- Generation one inherited a small farm and worked diligently, although with high debt, to build up the farm to a significant business. His two sons worked with him in the business, but they continually fought. At times the relationship was poisonous and they fought physically. In the end, because of the continual fighting within the family and the high debt the majority of the farm was sold.
- Generation one/two. Business continuing; funds from family and contracting; grew to enable succession but business failed; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 67

- In generation three, there were two brothers who inherited the farm and their siblings got a minor payout. One brother had no children, the other brother continued to farm until his children took over. One child then assumed management responsibility and eventually assumed ownership of the farm and the other two children received very little.
- Generation three/four. Business not continuing; funds from family; grew to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 68

- A Second World War soldier settler farmed very successfully and assisted two sons to set themselves up in farming. One son worked in partnership with his father and spent his own money to build significant physical assets, including a house, on his father's land. When eventually he and his father decided to part company, the separation of assets became very difficult. In the end a solution was agreed, but only after considerable angst.
- Generation one/two. Business continuing; funds from settlement scheme; grew to enable succession but succession failed; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 69

- Generation two left the farm equally to his two daughters. One daughter married a farmer who farmed the farm on behalf of the family and turned it into a very successful business. Upon the death of the widow of generation two the non-farming daughter claimed that she should receive fifty per cent of the assets. There was no recognition for the significant contribution that the farmer has made. The subsequent court case found in favour of the farmer daughter.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 70

- In generation three the youngest son will be the continuing farmer with the majority share. The oldest son decided he did not like farming and was paid out generously for his years of work.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 71

- The father in generation two has three sons who are likely to wish to farm. The current operation involves two farms plus leased land. It should be possible to expand to three farms if required. Generation two is gradually retiring.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 72

- The father in generation one had three sons. All worked for many years without drawings from the farm and assisted in building up the empire which was share between them 20 years ago. In Generation two son A who took over the 'home farm' has three sons. One son in generation three will continue to farm whit his father.
- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 73

- Son has succeeded to the farm and business with parents comfortably retired and semi-independent of the farm, son completely independent.
  Sister educated, married to a teacher, has children, seen as somewhat disadvantaged by the parents compared with their farmer son.
- Generation one/two. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 74

- Initially starting the new farm. Taking on the son and handing over control of the farming to him 15 years ago. Daughter educated, single given a residence. Will inherit parental off farm wealth but a move by parents for a greater share of assets now is unresolved.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 75

- Generation two. Two sons working in the farm business have expanded it considerably. Incredibly efficient farmers dedicated for life. Son C working salaried employment. Has been greatly assisted with the purchase of a house. Will be generously legated on death of survivor parents. The farm will be split into two separate businesses between the two Generation two sons.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 76

- Generation one had three sons and a daughter. Only one farm, much debt and need to superannuate parents. Parental retirement saw the youngest son be favoured with the farm as the others had embarked on other careers. Succession achieved 20 years ago. Generation one wife died early. Generation

one remarried. The wife of a non-farming sibling threatened to challenge his will. This was fortunate because it triggered succession to be put in place without wealth being in the estate of the seniors.

- Generation one/two. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 77

- Succession has gone through one generation so far. The first succession was very prolonged. One Generation two chosen to farm from a position of incumbency two followed non-farming careers or jobs. Both tried small business but then reverted to taking jobs. They have been allocated some of the land from their parent's estate upon death of the survivor. Not so much as to leave a non-viable form for the incumbent, but more than the incumbent would have liked. He has a first option to purchase.
- Generation two. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 78

- Growth over the years and then one son taken into the business and then succession was put in in place. Could be a major inheritance from a maiden aunt at any time. Son and wife making large off farm property investments rather than growing the farm.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 79

- Very small initial farm, son shearing. Generation two son leased properties and sheep and eventually was able to buy the father out. Generation two built up the business and is planning succession to two sons (Generation two/three) who will have separate businesses. Five per cent of farm income each year

was invested in shares. Now a very large portfolio giving comfortable retirement and daughter legacy without greatly affecting the farm.

- Generation two/three. Business continuing; funds from family and off farm income; did not grow to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 80

- A long family association with farming delayed the decision to leave. The incumbent tried to continue but, in the end, after the pressure and uncertainty, when he left, he found a great sense of relief. This was followed by a time of sadness, part of the natural grieving that took six months or so to pass.
- Generation three/four. Business not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; satisfied family; even share.

Historical Record 81

- Couple talked about a move for eighteen months to two years before anything happened. He needed more mental stimulation. Often the main obstacle to making a break is ignorance. Too many people spend enough time away from their farms learning new skills and seeing new ways of doing things.
- Generation two/three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 82

- She did not think she had any skills that could be used off farm. She later learnt that she had skill sin marketing, pastures and livestock production, managing human resources and as a farm machinery operator
- Generation one. Business not continuing; funds from family; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 83

- They had worked hard to get their farm. When they had sold, they worried about what people thought. They paid off their debts and ran a business with their sons. Now almost retired, they have a small farm area and some horses so they can share the basics of farming with their grandchildren. Their success has some form sticking together as a family.
- Generation one, business not-continuing; funds from contracting; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 84

- Breaking away from the tightly-bound family farm was not easy for this family. Once done though, they relished their interdependence and discovered their strengths and skills. They found the mining industry in remote areas suited them and has helped them to be well off socially, emotionally and financially.
- Generation two/three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 85

- In this family the parents moved so their son could take over while he was still young. The father had been forced to wait until he was forty-five to take over the farm from his father. Their lives opened up to new experiences and their son enjoyed being in charge. They renovate houses using skills they 'picked up' on the farm.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 86

- Things became difficult for this family when they sent their children to boarding school. When their bank manager said they had spent too much on the telephone, they knew they had to find a more lucrative business. They had about a million dollars in assets, but they were struggling to buy food and pay bills. They now run a highly successful business in the hospitality industry.

- Generation two/three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 87

- This family needed more challenges. They expanded into tourism on their picturesque farm. Later, he moved into wholesaling and, for many years, ran the business and the farm at the same time. They now live in the town and enjoy having plenty of people to mix with. They also find that buying meat is easier than killing sheep.
- Generation three/four. Business not continuing; funds from family; grew to enable succession but the business failed; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 88

- In this family the wife had always wanted to take on another career but there had never been time. Her husband wanted to allow one of their children to return home: He thought it was time to step back and let his son manage the business. She graduated as a nurse and enjoys her new career. He helps manage other properties and is pleased the family farm is in good hands.
- Generation two/three business continuing; funds from family and off farm income; did not grow to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 89

- No matter how this family looked at it, there wasn't enough money in farming. The main barrier to change was to admit failure. It was hard for him to say he had been beaten. He is now managing one of the largest farms in district. Its success has given his confidence a big lift. She works in environmental programs.
- Generation one; business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 90

- When their father died, his brothers and sisters thought he got a good deal in taking over the farm. But after a few years, they it was going backwards financially. He sold a couple of paddocks, but things didn't improve much. Then the rest of the farm was sold. 'Now we are so much better off. We have no debt. In fact, our investments are doing very nicely, thank you very much.'
- Generation three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; not an even share.

Historical Record 91

- He entered new territory as far as enterprises were concerned. A combination of lack of district knowledge, a lack of skill in enterprise, increase in interest rates and too much debt meant that the farm was effectively liquidated.
- Generation three/four. Business not continuing; funds from family; grew to enable succession but the business failed; no funds to retire; not a viable farm; satisfied family; even share.

Historical Record 92

- The second-generation farmer had his son working on the farm for about thirty years and decided to gift the farm to the son. However, before the gifting process was complete the father dies, meaning that the farm passed to his son through the Will. The Will was challenged by the other sibling, who claimed to have spent a great deal of time working on the farm. Nobody else on the farm had ever seen that sibling doing to work, but nevertheless the court found in favour of the sibling and the farming son had a much-reduced asset handed to him and a great deal of debt.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 93

- The farming son in the second generation was one of four siblings and received the greatest share of the farm. In order to protect the parents in retirement, they retained ownership of some of the farm which would eventually go to the non-farming siblings.
- Generation one/two. Business continuing; funds from family; grew to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 94

- In this family, generation two was able to get each of the children in generation three started in farming. Albeit with considerable debt but farming on their own account. The share was even.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 95

- Generation three died, leaving the estate equally to the children. The children had a difference of opinion as to whether they could work together and whether the farm should be sold. As a result, the greater part of the farm was sold, leaving an unviable farm to be passed on to the child who wanted to farm.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family; even share.

Historical Record 96

- In this family, the stepfather took managerial control of the business and made it particularly difficult for his step child and partner to become involved in the business. Although they had the skills and the willingness, in the end it was just too hard, so the stepson moved away.
- Generation two/three. Business continuing; funds from family; grew to enable succession but succession failed; no funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 97

- Generation one asked the farmer in generation two to work beside him in order to develop the farm over a period of about thirty years. When generation one died, the farm was left in part to the farming son, but almost equally to the non-farming children. The part that the farming son had played in developing the farm was not recognised.
- Generation one/two. Business continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 98

- Generation one handed management control of the business to generation two. Generation two ran the business after his father's death and that of his mother. At that point, his siblings made claims and effectively the farmer in generation two had to buy half the farm which he has spent a life developing.
- Generation one/two. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 99

- Generation three sold the farm and traded up to a larger farm and became a very successful farmer, paid off the larger farm, but agreed with his children that in order for the farm to be viable, the farming child needed to get the lion's share of the assets. The non-farming children were apparently content with this situation.
- Generation three/four; business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 100

- Generation two handed the farm onto generation three, which was easy as there was only one child in generation three. Generation three is now working through the process of handing on the farm to generation four. The farmer in

generation four has spent most of his working life working off-farm and the challenge now is to be able to work through the situation so that both siblings are comfortable with the result. It is highly unlikely that generation four will be able to pass on a viable farm to generation four and have an even share.

- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 101

- Generation three farmer was one of four children and inherited the bulk of the family wealth. Generation three had four children and the two males took over ownership of the farm. One brother in generation four bought out the other, found with changed family circumstances and interest payments that selling was a good option. Managed sale well.
- Generation three/four Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 102

- The brothers in generation three went separate ways. One to a professional career and the other continued to farm. After several decades an offer was made by an outside party to purchase the farm. The farming brother didn't want to sell but was forced into agreement by the other brother. The proceeds of the sale were shared evenly and the farming brother received little recognition or compensation for his efforts.
- Generation two/three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; even share.

Historical Record 103

- Generation two was a member of a large family and took a small share in the farming business in order to get a start. He then built a successful business and ran a viable farm which he handed over to one of his two children. After about twenty-five years the farmer sold the farm and retired in comfort. His siblings

had to continue working and received no compensation from the farmer.

- Generation two/three. Business not continuing; funds from family and bank; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 104

- Generation two took over the farm as a viable unit and had four children two of whom want to manage and own the farm, but they did not want to work together. They are in a competitive situation 'pitching' for the right to take over.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 105

- Generation one commenced farming in his mid-thirties following a successful business career. He built the farm business to allow generation two to work on it. Of two candidates in generation two one didn't want to work with his father, the other tried to but found it too difficult. The farm had the capacity for three or four family members to work in it but that did not eventuate.
- Generation one/two. Business not continuing; funds from success in business; grew to enable succession; funds to retire; viable farm; not a satisfied family; even share.

Historical Record 106

- Generation one ran a successful city business which is carried on by part of the next generation. One member of the next generation elected to farm and capital was provided by Generation one. The succession issue (unresolved) is weather the farming son was/will be treated fairly in the eventual cut up of family assets.
- Generation one/two. Business not continuing; funds from successful business; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; not an even share.

Historical Record 107

- Generation two was an only child who had three children. Eldest son perused a career off farm and was given sufficient capital to buy a small sub viable farm. Family inheritance made retirement for the parents possible. Middle son took over the farm and the debt. Youngest child will receive some start to buy a house in the city as soon as is necessary. Remainder of share will be passed on when parents die
- Generation two/three. Business continuing; funds from both sides of the family; did not grow to enable succession; funds to retire; viable farm; satisfied family; not an even share.

Historical Record 108

- Generation two took over a family farm which had been viable and handed it on to generation three. Generation three involved three farmers and one non farmer. The three farmers in Generation three built the business to a very large concern but were unable to agree on the rules of employment and engagement for generation four. Generation three worked well together to build the business but were unable to agree on how capital should be deployed, how Generation four should be employed and how off farm income should be treated.
- Generation three/four. Business not continuing; funds from family and accumulate growth; grew to enable succession but succession failed; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 109

- Generation two handed a viable business on to two sons in Generation three. The two sons worked together but each followed his passion and as a result the farm had up to six enterprises. The result was that most of the enterprises lacked the management attention they needed at some critical time and the performance of each was well below expectations for the district. The cousins in Generation four were unable to arrange a satisfactory way of working together and the business was split.

- Generation three/four Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; not a satisfied family; even share.

Historical Record 110

- Generation two took his share from the family farm, went out on his own and died at a young age, His widow carried on the farm until generation three was able to take over. Generation three opted to keep the farm, allowing one member to lease the land and gradually take over the business. Payments for the lease of the land are used to repay debt on land and to sustain the widow. Payments to the non-farmers will be held until their mother dies or no longer requires money from the farm.
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 111

- Generation two sold his farm in an area of peri-urban development and relocated where he purchased a smaller farm, adequate for his needs and provided a start for each of his three children in Generation three) Generation three started with sub viable farms but with off farm income they are turning those farms into viable businesses.
- Generation two/three. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 112

- Two brothers in generation two were left the farm on condition that they provided for their mother. After farming together for almost thirty years the farm was not generating sufficient income to sustain the two brothers and their mother. One of the brothers was a bachelor and had minimum, income requirements. Eventually the cost of production in relation to the income left insufficient funds and the farm was sold.
- Generation two/three. Business not continuing; funds from family; did not grow to enable succession; funds to retire; not a viable farm; satisfied family;

not an even share.

Historical Record 113

- In generation three two brothers were given farms of about equal value but not of equal earning capacity. Brother A who we will follow sold 'The family seat' and to purchase a bigger farm, developed it, sold it ,bought again sold again and finally bought a farm of sufficient scale to be viable. He had the funds to provide for the non-farming children on an almost equal basis.
- Generation three/four. Business continuing; funds from family; grew to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 114

- Generation three inherited the farm and worked with his father for many years. In order to ensure that Generation four all had the opportunity to farm Generation three involved all the children in the business. The idea, to market product directly to the public came from Generation three. The strategy has allowed participation by the whole family.
- Generation three/four. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; satisfied family; even share.

Historical Record 115

- Generation two inherited the farm and generation three is qualified, equipped and willing to take over the management on behalf of the family. However, after a lengthy trial period Generation three opted to pursue a career away from the farm. The continual fight between father and son was too difficult,
- Generation two/three. Business continuing; funds from family; did not grow to enable succession; funds to retire; viable farm; not a satisfied family; not an even share.

Historical Record 116

- The would-be farmer in question seemed to have sufficient funds to become a farmer. He came highly recommended with personal references. It seemed he paid the deposit. He certainly moved onto the trophy property. He called

for massive development plans. He deceived the vendor, the agent and many suppliers.

- Generation one/zero: Business not continuing; funds from nowhere; did not grow to enable succession; no funds to retire; not a viable farm; not a satisfied family; not an even share.

APPENDIX 7: AGRICULTURAL ASSET BANDS

RESEARCHED AGRICULTURE SALARY BANDS 2018 $K 000 *					
Property Scale	**Responsibility Level**				
	0	**1**	**2**	**3**	**4**
< 6,000 DSE	40-50 45K	40-55 45K	50-60 55K	50-70 60K	60-80 70K
6,000/15,000 DSE	40-50 45K	45-60 55K	60-70 65K	60-80 70K	70-95 85K
15,000/30,000 DSE	40-55 50K	45-60 55K	65-80 70K	70-90 80K	80-120 95K
Above 30,000 DSE					150

*plus, a package of benefits which include a house, work vehicle, electricity and phone.

APPENDIX 8: ADJUSTMENT FIGURE FOR ROB ETA'S CONTRIBUTION

Adjustment figure for Rob's contribution						
	Annual	**Rate**	**Adjusted amount**	**5% interest**	**Amount with interest**	**Amount paid**
30/6/97 to 29/06/98	**21,294.00**					
29/06/98 to 6/9/1999	**22,022.00**	**Award**	$22,022.00	$36,409.00	$58,431.00	$15,000.00
6/9/1999	**22,646.00**	**Award**	$22,646.00	$34,549.00	$57,175.00	$15,000.00
6/9/2000	**23,426.00**	**Award**	$23,426.00	$32,951.00	$56,377.00	$15,000.00
2001	**23,426.00**	**Award**	$23,426.00	$30,267.00	$53,693.00	$15,000.00
30/11/2001 to 30/10/02	**24,102.00**	**Award**	$24,102.00	$28,510.00	$52,612.00	$15,000.00
31/10/02 to 30/10/03	**25,038.00**	**129%**	$32,299.02	$25,138.00	$48,437.00	$20,000.00
31/10/03	**25,922.00**	**129%**	$33,439.38	$32,768.00	$66,207.00	$20,000.00
31/10/04	**26,910.00**	**129%**	$34,713.90	$30,744.00	$65,457.00	$20,000.00
31/10/05	**27,794.00**	**129%**	$35,854.26	$28,535.00	$64,389.00	$20,000.00
2006 @ 3% CPI	**28,627.82**	**129%**	$36,929.89	$26,236.00	$63,161.00	$20,000.00
2007 @ 3% CPI	**29,486.65**	**129%**	$38,037.78	$23,922.00	$61,960.00	$20,000.00
2008 @ 3% CPI	**30,371.25**	**129%**	$39,178.92	$21,600.00	$60,778.00	$20,000.00
2009(avg 08 & 10)	**30,626.96**	**129%**	$39,508.78	$18,863.00	$58,371.00	$20,000.00
2010	**30,882.80**	**129%**	$39,838.81	$16,128.00	$56,057.00	$25,000.00
2011 @ 3% CPI	**31,809.28**	**129%**	$41,033.98	$13,955.00	$54,988.00	$25,000.00
2012 @ 3% CPI	**32,763.56**	**129%**	$42,265.00	$11,677.00	$53,942.00	$25,000.00
2013/14	**41,693.60**	**129%**	$53,784.74	$11,591.00	$65,376.00	$35,000.00
2015/16	**43,758.00**	**129%**	$56,447.82	$12,165.00	$68,613.00	$35,000.00
2016/17	**45,203.00**	**129%**	$58,311.87	$9,191.00	$67,503.00	$35,000.00
2017/18	**45,812.00**	**129%**	$59,097.48	$6,057.00	$65,154.00	$35,000.00
2018	**46,784.00**	**129%**	$60,351.36	$3,018.00	$63,369.00	$35,000.00
			$816,714.99	$454,274.00	$1,262,050.00	$485,000.00
					Adjustment figure	**$777,050.00**