

## Some Comparisons from Succession Case Studies – Pt 2

Few farm businesses in Australia pass smoothly from one generation to the next. The Farm Success Enabling Case Studies summarise the approach of sixteen, family owned, Australian businesses towards succession planning, contrasting the attitudes, attributes and actions of people within each business.

With the stated aims for each family identified previously, the case studies have helped to debunk some common truisms within the industry. Some of these include:

- **Get big or get out** – could be replaced with ‘get efficient or get out’. The Sigma and Tau family studies identified that an undercapitalised small business will become more inefficient if it tries to achieve scale, before it has achieved efficient use of capital. Similarly the Iota and Lambda family studies showed that the efficient use of capital can fuel expansion.
- **You cannot fund retirement, pass on a viable farm and treat your children equally (the three aims)** – as identified in the case studies of the Mu, Upsilon, and Epsilon families, the three aims of the family can be achieved by: starting at an early age to build the business; handing over to the next generation early; encouraging family members to earn off farm income; and using all the relevant skills and talents of family members to achieve agreed goals.
- **Keep the family capital in a block** – The Theta study shows that whilst maintaining the capital in a block may give growth if the family grows (in number) faster than the capital grows (in value in real terms), eventually the asset will have to be sold or some of the shareholders bought out.
- **Maintain 80% equity** – As was demonstrated with the Mu family study, 80% equity is an indication of ‘lazy capital’. The equity has mostly been between 60% and 70%, and an average return on capital of 14% per year has been achieved over the last 20 years.

With these in mind, let’s further examine some important contrasts of continuing and non-continuing businesses within the case study series:

**Control of the Board and Shareholder engagement:** The case studies highlight the importance of keeping control of the Board and ensuring shareholders are engaged. Two families, in the farming business since the 1800’s, employed people from outside the family at a senior level. The Beta family relied heavily on external advice and consequently lost control of the Board, the family became disenchanted and the business was sold. In contrast, the Pi family kept control of the Board, and ensured family members had a keen interest in the business. The Pi family business is thriving.

**Team work & involving the next generation:** The case studies serve to highlight the importance of working together as a family unit to grow the business, and involving the next generation early on to ensure smooth succession. The Iota family business started small and now supports eight people including four members of the founding family. In contrast, the Zeta business started as a large business, but has shrunk and is now requires off farm income to rebuild infrastructure and support the family. The principle in the Zeta family was autocratic in his leadership style, and the next generation were chased away.

**Agreement on the end game:** In succession, it is important that all family members agree on the end game, and are happy with the outcomes of succession. Contrast two sets of brothers who farmed together from an early age and their approach to succession. The Epsilon brothers used their combined talents so the inevitable split would be orderly and

advantageous to all. 'It took about an hour to agree' and each member of the family got what they wanted. In contrast, the Delta brothers took twenty years of argument to eventually agree to appoint a liquidator to sell and distribute the assets. The family lost about 40% of its wealth in the split, and no one got what they wanted.

A copy of the case studies and an analysis of 'success versus failure' is available at <http://www.meridian-ag.com.au/the-library/current-projects/farm-success-enabling-case-studies/>