DAIRY FARM OWNERSHIP STRUCTURES AND THEIR MANAGEMENT; CASE STUDY RESEARCH

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Abstract

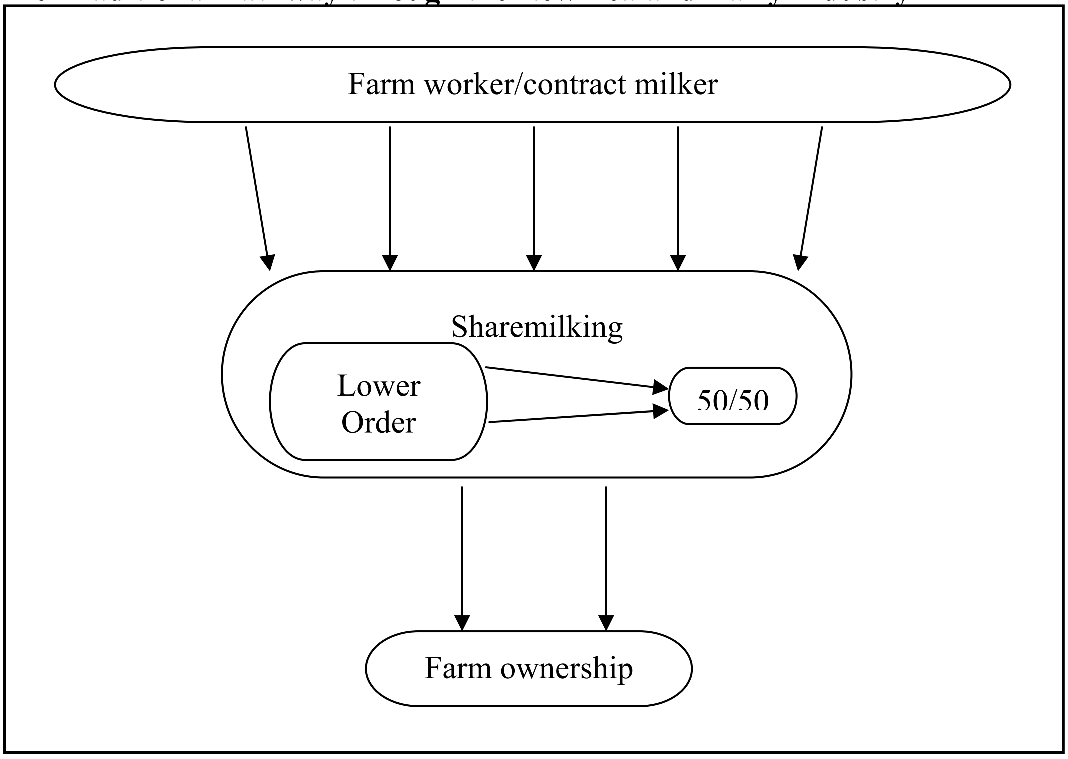
The traditional pathway of progression through the New Zealand dairy industry is being challenged; equity partnerships, 'mega' farms, sharemilkers holding multiple contracts, growing acceptability of career paths where land ownership isn't the ultimate goal and spiraling land values are driving change at such a speed that much of the available information is anecdotal. To clarify understanding of this phenomenon research into contemporary ownership structures was undertaken. This paper reports on qualitative analyses of equity partnerships. The mix of people and interpersonal communication have been identified as critical success factors; when the mix of people differs if partners held common goals and their business structures and procedures enabled trust to develop there were fewer problems than if the mix was 'right' but trust had not developed. Differing time frames and requirements in regards to investing for growth versus paying dividends can create tension. For some people control, self-employment and teamwork issues are insurmountable and they exit from equity partnerships.

Keywords: sharemilking, equity partnerships, case studies, dairy farming, trust

Introduction

In New Zealand it is recognized that to create wealth a farming family will make a number of land purchases and sales during its life cycle. Especially in the dairy industry, it is common for a farming couple to have worked on and had varying degrees of investment in many farm businesses in their lifetime (Gardner and Shadbolt, 2005). The challenge for many is to grow their equity as they progress from employee and lessee status to purchasing land and then growing the business further to employ staff and finally releasing them into 'paid' retirement.

Figure 1: The Traditional Pathway through the New Zealand Dairy Industry



In the dairy industry the traditional pathway has been from farm worker to sharemilker to owner-operator (historically also the route for succession within a family business) as shown in Figure 1; however this is now being challenged as new routes have emerged. This includes professional farm managers, for whom farm ownership is not the ultimate goal; sharemilkers holding multiple contracts and equity partnerships. This is being driven by spiralling land values; the size of an economic farm unit increasing (LIC, 2006); a disparity between land and cow values (Hall & Allen, 2004); and the emergence of 'mega' farms, which may not allow farm workers to develop the range of skills necessary to run their own farming business. The speed of this change has been such that much of the information held on the subject is anecdotal.

AgResearch, AGInvest and Massey University (funded by Dairy Insight) combined forces to research this phenomenon. They began with a review of the literature to define each ownership structure and how it has developed, and to document critical drivers of change in the industry. This was followed by focus group meetings aimed to capture the participants' interpretation on what was happening to ownership structures in the industry, the causes and the impact of the changes. Findings from the focus group meetings are also reported at this conference. Information from the literature review and the focus groups was pivotal in directing the next two stages of the research (a survey and case studies) as it identified what the issues facing the industry are and how people are addressing them. This paper reports on the case study research and refers to the literature review, the focus group meetings and the survey as supporting documents.

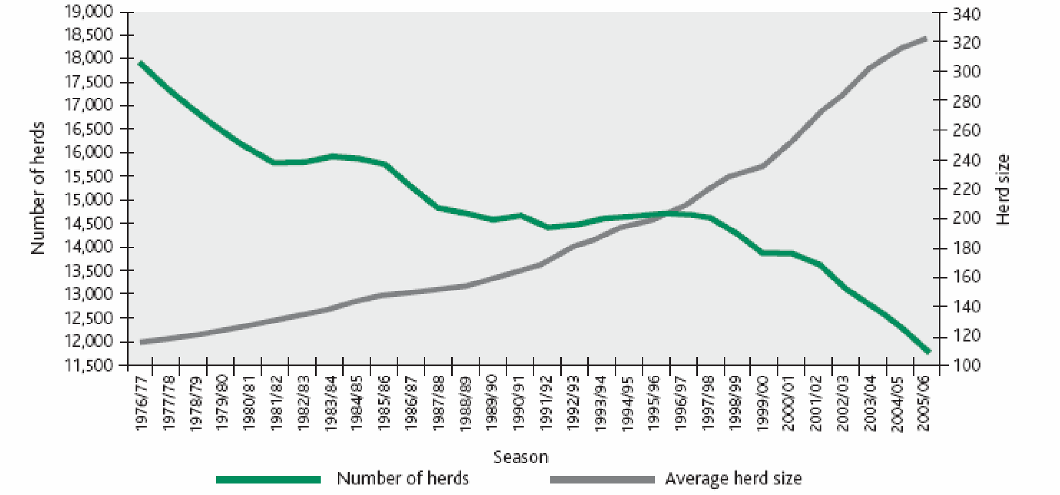
Literature Review

Sharemilking, a form of share leasing, involves operating a dairy farm on behalf of the farm owner for an agreed share of the farm receipts rather than a set wage and there are two types commonly used: lower or variable order, and 50/50 (LIC, 2006). The Sharemilking Agreements Act 1937 and the Lower Order Sharemilking Agreement 2001 governs Lower Order agreements (usually one year contracts) where the landowner provides the land and buildings, the herd, nearly all the plant and machinery, and is likely to have a hands-on role in the management of the farming operation (Gardner and Shadbolt, 2005). There is no specific legislation covering 50/50 sharemilking agreements, where the sharemilker owns the livestock, and some plant and machinery although significant legal precedent exists that helps guide them. Usually they have a term of 3 years initially; 50/50 sharemilkers receive the proceeds from livestock sales in addition to their share of the milksolids income and they cover more expenses than Lower Order sharemilkers as specified in their contract. The terms of the contract will be influenced by the economic environment at the time it was drawn up (Gardner and Shadbolt, 2005).

One issue for sharemilkers is that livestock values can fluctuate markedly between seasons according to seasonal and market conditions (Rabobank, 2002); transferring livestock equity into land (valued often 6 months earlier) can therefore be fraught with uncertainty. The current situation of land prices increasing significantly faster than livestock values also make it increasingly difficult for sharemilkers to build sufficient equity to purchase a farm (Washer *et* al, 1998).

While anecdotal evidence has suggested the number of contestable (non-family) sharemilking positions have been dropping in recent years (Hall & Allen, 2004) it is of interest to note that the percentage of herds operated by sharemilkers has not changed greatly. The number of herds run by sharemilkers ten years ago was 5050 (34.3% of the total) and in 2005/06 was 4260 (35.8% of the total). Competition for sharemilking positions as identified by Hall & Allen (2004) is related more to the decline in the overall number of herds which, with increasing cow numbers, also means larger farms and larger herd size (Figure 2).

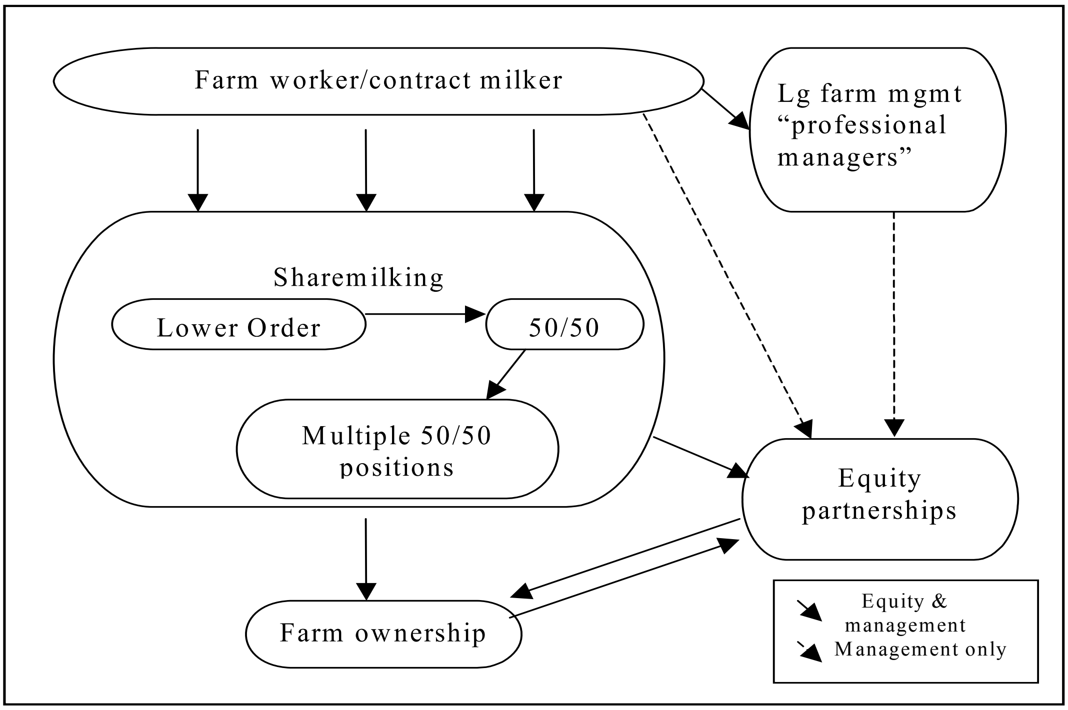
Figure 2: Trend in number of herds and average herd size for the last 30 seasons.



Source: LIC 2006

These changes have been the catalyst for the development of new pathways as described in Figure 3. The survey results indicated farm ownership is no longer seen as the 'ultimate' success in a dairying career; some instead see becoming 'professional managers' on the mega farms as success. Farm ownership is still an achievable goal and there are now more options of how to achieve this and also more career opportunities (Handford, 2004c). The pathway may be through equity partnerships.

Figure 3: Contemporary variations to the Traditional Pathway through the New Zealand Dairy Industry.



Although it is assumed in Figure 3 that sharemilkers with equity are more likely to progress to equity partnerships as partners, in the survey it was found that some professional managers and farm workers also did so due to having equity available from other sources.

Equity partnerships

The survey cites a lack of knowledge in regards to equity partnerships however this may mean that equity partnerships are not very well understood rather than information is not available.

The term ‘equity partnership’ is the name which has been used for businesses where a number of people have pooled their equity to become partners (Handford, 2002); they are also referred to as farm syndicates or equity farming (Moynihan, 2005). In spite of the name, the preferred ownership structure for equity partnerships is almost always a company, so this term ultimately describes the ‘partnership of people’ pooling their resources for the good of the partnership (Hunter, 2006). This allows investors to become involved in a venture which they could not manage/finance on their own (Wilson, 2006). An equity partnership can be an intermediary step for high achieving young farmers seeking sole farm ownership or an investment vehicle for those wanting to share in the fortunes of the dairy industry (Rowan, 2007). Physical involvement in farming may range from partners having an equity interest only and not being involved to a partner being the ‘active farmer’, this person is termed the ‘managing partner’ (Gardner & Shadbolt, 2005) or ‘equity manager’, whose employment as manager is separate from their shareholding.

Equity partnerships offer the chance for both capital and income growth opportunities; they allow outsiders to invest, provide an entry point for sharemilkers/managers wanting to create a stake in land ownership and give landowners the option to release some equity without removing themselves from their farming asset (Gaul, 2005). The equity manager's position is usually a salaried position which, relative to sharemilking, provides a higher level of security of income and stability for families, in that the manager has some influence in the timing of exiting (Handford, 2004c). The assumption that the provider of equity funds will take part in some of the risks of the business indicates one of the biggest benefits of equity partnerships (Shadbolt, 1998); this pooling of funds also allows farmers to purchase larger than average scale farms which may present advantages related to their size (Handford, 2004c). In addition equity partnerships offer the chance to work with others to challenge and complement skills and resources (Gaul, 2005).

A National Bank review of the first 14 new generation equity partnerships five years after their formation showed that their collective equity had grown by 18% compound over those 5 years, with milk production increasing on average by 8% compound. There was also a trend towards fewer shareholders, with one or more being dominant; and farm management had moved away from equity managers with the number of farms run by a farm manager or contract/sharemilker increasing (Wilson, 2006).

The literature on equity partnerships is further defined under business and people sub-headings as follows:

Business

Opportunity: Handford (2006a) suggests successful equity partnerships have a good 'proposition' – a farm which is good or potentially good, and which represents value for money. Rowan (2006) also observes that there should be a clearly defined business opportunity. The investment proposal should fit well with each individual's investment objectives (Handford, 2006b).

Structure: A company is the most common ownership structure for equity partnerships in farming. It is a separate legal entity and it is mostly controlled by the directors, with certain key decisions made by the shareholders (Rowan, 2006). It is simple to understand and manage and flexible to change in shareholding (Handford, 2003).

Documentation: A shareholders agreement, a company constitution, a well developed business plan and employment agreements are all key documents which require careful definition (Gaul, 2005). A well drafted shareholders agreement is essential to govern the management of the company (Rowan, 2006) and should anticipate the possible future points of disagreement and should contain 'ground rules' for the procedure to be followed if partners cannot agree (Groundwater's, 2005). Gardner & Shadbolt (2005) advise that a prudent step is to implement clear procedures to provide for the orderly exit of equity holders. Handford (2005b) describes this as a latent issue with equity partnerships, that is, it is not an issue until it needs to be put into practice. He states that in practice there is a full range of outcomes but when common sense prevails, people exit on good terms.

Costs: There are costs associated with the set up of the equity partnership, the process of buying a property may require up to 500 hours worth of work (Bielski, 2007) and if this service is provided by a professional advisor or equity partnership specialist the cost may be of the order of $100,000 or more (Rowan, 2006). Because they are controlled by statute there are also greater costs of compliance for companies than with other structures (Shadbolt, 1998).

Reporting: Reporting systems should be regular, timely and provide all the information that partners are entitled to; allowing business decisions to be made based on adequate and correct information, optimising long-term performance (Handford, 2004b). Transparency is an important aspect of the structured, professional business approach shown by successful equity partnerships. This necessitates accurate reporting ensuring that all parties are fully informed and there are no surprises to create situations of conflict (Gaul, 2005).

Roles: In a company the shareholders appoint the Directors to the Board; the Board runs the company, is responsible for performance and compliance, and delegates the management team. This means that one person may have three roles in the business and needs to be clear as to which 'hat' they are wearing at any one time (Handford, 2004a); they must also understand each role. The management team usually consists of the farm manager and a designated shareholder or independent business manager and is responsible for ensuring the plans are implemented; shareholders must refrain from interfering in management as this commonly causes problems (Gaul, 2005). Good governance is an integral part of a successful equity partnership (Wilson, 2006). The appointed chairman should lead the board and is responsible for setting the agenda and making sure the board and company is run effectively in the best interests of the company and shareholders; consistency in this role is important as the chairman needs to create a culture of mutual respect and open communication (Handford, 2007).

Capital: The major return from equity partnerships is in the form of capital appreciation rather than cash dividends and the lower the gearing the higher the potential to produce dividends (Hunter, 2006) so the amount of equity in the business must be adequate to allow returns to match shareholders expectations of returns. Hunter (2006) comments on the negative connotation arising from the practice of equity partnerships offering equity managers a minority shareholding as a way to "lock them in" and recommends that an equity manager should ideally have an equal shareholding with all other shareholders, or at least purchase a 20% shareholding. Sharemilkers going into an equity partnership should also take into account the taxation implications of selling livestock (Rabobank, 2002). The inability to utilize equity built up in an equity partnership for further personal borrowing without personal guarantees from the other shareholders may be another issue as it may hinder equity managers in regards to future investment opportunities (Hunter, 2006).

People

Equity partnership management requires a special set of skills that are not as necessary in an owner-operator farming business (Shadbolt, 1998). Moynihan (2005) observes that the most important issue seems to be the ability and skill of partners to be able to pick people and then work with them for the good of all; "having the right people in an equity partnership should always be paramount" (Handford, 2005a). Gaul (2005) asserts that the importance of having the right people should never be understated; that successful equity partnerships consist of people who are team players, honest, open, get on with other people and recognise that their way is not always the only way; decisions must be made that are in the best interests of the company (Handford, 2004b). Competence, attitude and ability are also important (Gaul 2005). Doing referee checks on key people during the due diligence process may eliminate some of the common problems (Handford, 2006b).

Motivation: Ormsby (2005) defines good partners as not necessarily being good friends as long as they are travelling in the same direction. That the equity providers have broadly similar goals is also identified as fundamental to the success of the business by a number of other authors (Gardner & Shadbolt, 2005; Groundwater's, 2005; Gaul, 2005; Handford, 2005b; Hunter, 2006; Moynihan, 2005), furthermore

Wilson (2006) notes that these objectives should be realistic and shareholders should also have common timeframes in mind; Rowan (2006) adds that any differences should be complementary rather than divergent. Handford (2002) recommends that shareholders expectations be reviewed regularly as it is easier to maintain structures and processes than it is to set them up when things have broken down. One important factor may be sense of ownership, this may be particularly important in motivating equity managers, however Hunter (2006) found that this varied between equity managers.

Roles & Skills: Another important aspect of the people involved is their previous experience and the skills and capabilities that this allows them to bring to the equity partnership. The combined skill set of the shareholders is usually greater than that of any individual (Gaul, 2005). Rowan (2007) identifies a key driver for recruiting equity managers is the need for high calibre management staff on farm.

Trust & Communication: Interpersonal communication between partners is distinct from the process of reporting as defined in the business section above. Handford (2006a) states successful equity partnerships have the involvement of capable, credible people, who have the ability to make the venture a success. The people involved must have similar values, integrity and be honest as the overall relationship is built on trust (Hunter, 2006), trust is critical to the success of an equity partnership (Groundwater's, 2005; Moynihan, 2005; Ormsby, 2005). Palakshappa & Gordon (2005) give the following consequences of trust: cooperation, "healthy" acquiescence, functional conflict, diminished propensity to leave and decreased uncertainty/increased confidence, all of which would allow an equity partnership to run successfully. "Healthy" acquiescence and functional conflict refer to the ability to resolve situations openly and amicably. Butler (1991) concludes that trust is an important aspect of interpersonal relationships and that a useful approach to studying trust is based on a number of determinants of trust. Palakshappa & Gordon (2005) found that shared values appear to encourage trust and commitment and promote loyalty among individuals; they also document communication and absence of opportunistic behaviour among the antecedents of commitment and trust. The inclusion of communication signifies the importance of ongoing interactions in maintaining the trust relationship. Trust develops over a long time and is a result of the person's cumulative experience, and is more a belief in the honesty of a communication, interaction or relationship, than in its correctness (Fairholm & Fairholm, 2000). Forces within an organisation which may hinder the development of trust include: authority structure, lack of effective accountability mechanisms, history of negative trust events, organisational structure, uncontrolled growth, misuse of power, negative behaviour (Fairholm & Fairholm, 2000).

As noted the "people" factor has been identified by many authors as being the critical "make or break" issue for equity partnerships and they have further identified trust as a feature of the interpersonal relationships between partners which contribute to the success, or otherwise, of an equity partnership. What is not clear is how one identifies the best partners to be in an equity partnership with to ensure the success of the business and how trust is developed between partners.

Methodology

This paper reports the case studies in which the specifics of equity partnerships are addressed. Qualitative analyses of individual equity partnerships were carried out to determine the drivers of success and failure, and in particular to look at aspects of the people involved and their relationships which influence this.

Semi structured interviews were carried out with current equity partners, taking in more than one partner from each equity partnership; past equity partners whose venture was unsuccessful; and rural professionals - farm consultants, an accountant, a rural banking manager and a university lecturer. All the interviewees are involved in, but not limited to, dairy farming in the South Island.

With a particular focus on the people issues the ten conditions of trust: availability, competence, consistency, discreetness, fairness, integrity, loyalty, openness, promise fulfilment and receptivity identified by Butler (1991) were used as the basis for the analysis of the case study interviews.

Results & Discussion

Many, if not all of the issues and recommendations identified in the literature under the business heading were confirmed in the interviews.

Opportunity: Where equity partnerships were originally *"more for conversions"* because *"the price of land's too high" "there's actually not a lot of money to be made converting… made the money getting water on it"*, more equity partnerships are now looking to *"go in and buy existing dairy farms as well and titivate them up"* and careful evaluation of the business opportunity is more important than ever.

Structure: All equity partnerships included in this research have been run with a company structure, and this structure was also recommended by all the rural professionals interviewed; *"I don't like the words equity partnerships, they're not partnerships, they're investment companies"*.

Documentation: *"A good shareholders agreement basically has got everything in it, has got all the critical issues in it"* and the *"shareholders agreement always takes priority over the constitution if the two clash"*, one of the unsuccessful partnerships commented that *"the problems we had were bad contracts… it was just totally inadequate"*. In one case study the shareholders agreement has been developed over time from experience and *"we've put a lot of time and effort into that and we see it as some of our IP"*.
In a few of the case studies there was a lack of documentation "*nothing in writing, no shareholders agreements or anything"* however these partnerships were based on an existing relationship *"we did know each other, I'd been there 4 years by that stage"* and personal beliefs *"probably because of where we come from, Christian principles"* however they also point out that *"not everybody can work like that, and they shouldn't try to"*.
It is also *"quite important to have the management contract separate and people understand that so you can fire someone as manager but retain them as an equity partner"* and that partners understand the distinction.

Costs: Responses such as *"a wide range anything from $30000 to $250000 depending on who's charging them and how much the equity partners are willing to pay"* concur with Rowan's (2006) observation of the costs involved if the setting up of the equity partnership is managed or assisted by a professional advisor or equity partnership specialist. Costs associated with shareholder movement were mentioned *"if things change within the company there's quite a cost in changing everything, like getting all the new agreements changed and all those sorts of things"* and it was also noted it is necessary to be aware that the change in legal entities when moving to an equity partnership may increase costs *"we came from just a straight partnership now we've got four different entities and they all want an accountant to go through it so all of a sudden those type of costs start to escalate a little bit"*, there are also professional firms providing management services for a fee.

Reporting: Reporting in the case study equity partnerships covered the range from informal *"telephone, nothing formal"*, to *"monthly reports just a one page, what's happened during that month"*, to formal *"financial reporting, we do GST monthly or two-monthly and compare the actual with budget, send out a report and all that kind of stuff, and we have regular directors meetings"*. The observation that *"the more equity investors you have in a syndicate the more formal the reporting tends to need be"* seemed to hold for the case study partnerships and may be due to *"where there's a small number of syndicate members, you tend to find that they tend be reasonably financially quite strong in the beginning anyway… so they tend to be people who are slightly more financially experienced…they've also got a lot of experience in the dairy industry"* or that where there are a number of partners more formal reporting ensures that all partners receive the same information. There was also a connection made between the success of the business and the formality of the reporting processes *"the successful ones do (have regular formal meetings)"*. A number of the partnerships make use of software and the Internet to make some reports more accessible.

Roles: *"There always has to be one or two people who are capable of driving the whole thing"*. Problems may arise where a partner has more than one role, *"so an equity manager, when they come in they do struggle to get that balance"* and they may *"sway too far towards the ownership/governance side and don't do enough hands on gumboot work, then…some people don't have those skills and prefer to stay in the cowshed and then other parts of their business suffer"*. For one unsuccessful equity partnership the absence of a management team was identified as being a problem which could have been remedied by *"changing the management to only two or three people running it, probably three, on a day to day basis or a month to month basis, the others have a say as to the parameters of the year"*. It was seen to be *"very important to have a Chairperson on the board who has organizational skills…making sure thing's are getting done and notes kept and issues arising from previous minutes or previous conversations are being dealt with"* also *"an independent Chairman or an independent director…having some impartiality and having some person in there who's coming in from the outside on a directorship…is pretty good"*. The equity manager is responsible for operational management and should be allowed to get on with it; *"the reason we do an extensive business plan each year is it can be ticked off at budget time…then the farm manager has full autonomy to get it done"*, problems occur when *"everybody has to have a say about everything which is hard to operate under"*.

Capital: The case study equity partnerships could all be used as examples to back up the literature in regards to the form of financial returns they have received, with very few paying dividends. As far as the capital required at set up *"you need to have your debt servicing down in the low 20's because you have to have more oil on the cogs in order to make it work, you've got to pay a manager and you're going to pay him $80000…you've got to have the ability to fund the capital required to grow the business…so you have to start with much more fat in the system"* this also means that there will be *"a better opportunity of creating a dividend"*. In regards to Hunter's (2006) comments about equity managers with minor shareholdings being "locked in" and the inability to utilize equity built up in an equity partnership for further personal borrowing without personal guarantees from the other shareholders: this may be the case however *"…some of these guys think that they're not using their equity but they are, they're actually using it in the company to let the company to be as big as it is and so when you start to borrow against your equity that's in the company you're borrowing against it twice"*.

People

All interviewees agreed that the people involved are a most important aspect in the success of an equity partnership. It became apparent that the case studies could be divided on the basis of whether the partners had prior knowledge of each other before putting the partnership together, or if they were strangers prior to setting up. For those people who know each other prior to setting up the equity partnership this history will be the basis of the relationship however for those who don't know their prospective partners *"the advantage…is that New Zealand's pretty small and you can soon do your homework on someone else…find out who knows these people because there will be people that know them and if no one knows them then you're probably fairly well warned that something's not right, but that's important though if you don't know people is to really do some homework"*. Talking to others about their experiences with those people will allow the identification of the characteristics that are determinants of trust; if you rely on referees the situation may eventuate, as it did in one case study, where *"we only ever heard what they wanted us to hear"*.

Having knowledge of one's own strengths is a good starting point for determining suitability for being in an equity partnership as *"if you were somebody who felt it was really important to run your own show, to direct everything and be totally involved and have it your way, don't even go there"*. As is highlighted in the literature the ability to work as a team with the best interests of the business at heart is crucial because *"when you get into an equity partnership it's all got to be about making a return for the shareholders, personalities and things have to go out"*; having the "right" people is one part of the equation for success.

Motivation: The importance of common goals was confirmed by all interviewees, *"they wouldn't start (if goals weren't aligned)"*. Age and family were mentioned as factors which influence goals - *"people's expectations change as their family changes…in retirement they want to step back little a bit, they want a bit of cash…so their views change"*, which would also suggest that this should be reviewed regularly so that partners are aware of other partners changing situations. When discussing success the range of factors mentioned which contribute to their perception of this covered all those listed in the literature, and in all cases were related to their goals and expectations of the business. All equity partners appeared to feel some sense of ownership; *"no I don't (feel a sense of ownership for the properties that I don't live on) but I feel a sense of ownership on this one for the parts that I don't own"* although as Hunter (2006) found this varied. Off farm partners saw sense of ownership as essential to equity managers *"I would like to think that…they feel as if they own the whole farm"* and felt it important to respect this *"I would never go to any of those farms without asking permission because it's their farm as far as I'm concerned"*. Another important factor to consider is the openness with which goals and expectations are discussed which came through in comments such as *"it should have worked, there was no other reason in the whole wide world that it shouldn't have but no, coz this guy had his own hidden agendas"* and *"it didn't take long to show their colours, that it was 'how quick can we…take them over?"*.

Roles & Skills: Some interviewees value the inclusion of farmers in equity partnerships as they *"take a long term view…understand the long term ups and downs of the market and that they really need to be in there for 10 years"* however it was also remarked that *"when you've got straight farmers involved and everyone has the same skills, everyone also has the same conflicts, when you have a wide range of skills in an equity partnership people can start complementing each other"*, for one less than successful partnership this created difficulty as there was " *a lot of…expertise in the group, they all have differing opinions"* and *"everybody has to have a say about everything"*. It was suggested that *"if you can get equity partners who have a different range of skills and then you can get a Chairperson or someone leading who extracts the best out of everybody well then that's the best"*. All equity partnerships studied had taken professional advice at some point from people such as accountants, lawyers, farm consultants and bankers; a lot of information also came from acquaintances with previous experience.

Trust & Communication: Backing up the importance of trust as identified in the literature "the most critical thing of all equity partnerships is trust and honesty, everyone has to know what's going on, once distrust comes in anywhere with any of the partners it just festers and that's it, if you've got honesty and trust with each other then it'll work all right". Those who already knew, or knew of, their prospective partners have historic events on which to base their judgment, those who don't have this have to rely on having "done their homework"; information uncovered when looking into prospective partners should be given due consideration, the situation where "there were questions at the time of this guys personality and his motives and all the rest of it …so we took the chance and said 'yeah, we'll be in on that'" was not successful. They also have initial meetings prior to signing up in which to evaluate the character of their prospective partners and the shareholders agreement may assist in this as it "is really important not only because of the fact that it's a document of how the business is going to run but the fact that as a group everyone's sat around and talked about what's going to be it and agreed on it", this kind of process will allow people "to weed themselves out… the sort of people that wouldn't work". Having a clear idea of the traits of the people you wish to go into business with will help to identify potential partners; "the people that we want to get involved with have to be good honest reliable people and good citizens".

Different combinations of Butler's determinants of trust were mentioned in different interviews, the most common being fairness, openness and integrity (in which Butler (1991) includes honesty, truthfulness and moral character). Partners were able to judge their prospective partners by their verbal and non-verbal communications and the greater the time available in the set up phase the better will be the information on which to base the decision "if they come together too quickly that's when you run the risk of the people who aren't really suitable not being identified" which is consistent with Fairholm & Fairholm's (2000) observation that trust develops over a long time and is a result of the person's cumulative experience. Palakshappa & Gordon's (2005) consequences of trust were used to identify the presence of a trust relationship that will allow for the continued success of the business. In the unsuccessful equity partnerships studied the lack of a trusting relationship, and therefore the absence of cooperation, "healthy" acquiescence, functional conflict, diminished propensity to leave and decreased uncertainty/increased confidence contributed to the downfall of the business. The reasons for these equity partnerships failing to thrive also included some of the forces Fairholm & Fairholm (2000) identified as hindering the development of trust; particularly authority structure, organisational structure and misuse of power.

Conclusion

Contrary to popular belief there is a lot of information available about the equity partnership structure of dairy farm ownership, however much of this relates to the processes of setting up and running these businesses and not to the details of the interpersonal relationships between partners which have been identified as a critical success factor. By assessing equity partnerships using a trust framework developed from the general business literature it has been shown that a trust relationship between partners is the key to ongoing success or conversely that the absence of such a relationship will prevent the business from surviving challenges.

The identification of potential partners with whom you could develop a trust relationship takes time and experience, this may be limited when setting up an equity partnership; when partners are unknown to each other they may have to rely on background checks and limited interactions prior to signing on.

Many of the processes, such as meetings and reporting, assist with the development and maintenance of this relationship; this requires identifying those actions which are of greatest importance to the other partners and ongoing attention to be paid to ensuring that all the other partners' requirements are met. Some people are not team players and have either opted out of or not got into equity partnerships, thorough due diligence is required therefore of not only the business but also the prospective partners by anyone contemplating an equity partnership.

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