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Forum

Some Characteristics of Farm Syndicates

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1 Introduction

Farm syndication can be broadly defined as the sharing of a capital or labour resource used in agricultural production. The simplest form of farmer syndication is the borrowing of one machine for another, or the sharing of labour at critical time periods, while the most common form of formal syndication is the sharing of the capital contribution of a machine. Besides machinery, labour, fixed structures and sometimes (but rarely) land is syndicated. Breeding syndicates (where farmers combine to breed their own sires), buying syndicates and marketing syndicates also operate in Australia. Several cases also exist where whole farms have been syndicated and whilst individual ownership of land remains, the farms are managed as one. The legal entity taken by a syndicate may be a partnership, a proprietary limited company, a co-operative, or there may be no legal binding of the members.

Syndicates have evolved primarily to increase productivity, particularly through more intensive use of capital resources to reduce overhead costs (O'Sullivan 1972; Crabb 1977; Perkins 1977; Webb 1977; Davies and Brownscombe 1978; Davies 1979). Syndication in most situations has enabled the use of larger, more efficient machinery than could be justified on an individual basis. Syndication of labour allows more intensive use of machinery, specialization and ensures that skilled labour is available when more than one man is required to complete a job.

Disadvantages include the problem of organization, drawing up rules of operation, the cost of formation, and if a legal structure is necessary, additional annual accounting costs. In cases of machinery syndication, the question of who should use the machine first can be a problem, and some accurate estimates are required on operating and overhead costs to enable a fair sharing of costs between individual producers. With more complex syndicates, regular meetings are also required.

A study tour of farm syndicates in south eastern Australia showed a number of common characteristics in both their operation and in features of the syndicate members.

The tour examined a total of 16 sharing operations (Davies 1979), but five of these operations were actually financially separate activities run by two syndicates (one had two sharing operations, the other three). The types of syndicates examined ranged from a simple sharing of one machine where timing was not critical and no written agreement existed, to two whole-farm

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syndicates where all farm operations were syndicated. Membership varied from 18 in a breeding syndicate to two in a machine sharing syndicate. The most common number of members was between two and four. Three of the syndicates examined could be regarded as simple, while the remainder were more complex with written agreements, well defined operating rules and regular meetings.

Characteristics included a strong business orientation of members, a strongly developed degree of trust from one member to another and the use of a consultant in the majority of the more complex syndicates. These and other characteristics are discussed and some extension advice regarding promotion of the concept of syndication as a farm management option is given.

2 Common Characteristics of Farm Syndicates

2.1 Syndicates are Business Orientated and Flexible

Most members viewed syndicates in strictly business terms. They were formed for good business reasons and were not viewed as something permanent. Most members had a clear idea of how the syndicate structure could be altered to incorporate changed circumstances, or if necessary, how they could be wound up. This knowledge required a good background in budgeting, which most members had acquired.

A clear knowledge of how to alter or wind-up a syndicate meant that a potential form of uncertainty was removed. It also meant that when a syndicate ceased operation, the procedure to divide assets or pay costs associated with the syndicate was clear cut and it was more likely that members could cease business relations and remain on friendly terms.

2.2 Use of a Consultant

While simpler syndicates were formed because of individual farmer initiative, all of the more complex syndicates visited were formed with the encouragement and guidance of an agricultural consultant. Two consultants in particular were responsible for the formation of most of the syndicates that were visited. After formation, syndicates still used a consultant to help solve any difficulties that occurred, and after one of the consultants who helped form and advise three rather complex syndicates left the area, all three elected to use another consultant. Whilst the presence of a consultant may not necessarily be a prerequisite for success, to my knowledge there are no complex syndicates operating in Australia without some professional advice from a consultant. It seems that having an impartial adviser and arbitrator, who can discuss confidentially each member's position and gain a non-distorted view of problems that arise, is well worth the consultation fee.

2.3 Individual Member Characteristics

Some characteristics of individual syndicate members were—

- (i) Most had a clear concept of what they were trying to achieve with syndication.
- (ii) All had an above average knowledge of costing, record keeping and budgeting.

- (iii) Syndicate members generally had a strongly developed trust for one another and a respect for each others abilities. In some syndicates the trust and goodwill was developed so strongly that detailed bookwork on hours worked was not carried out. This was mainly because members were satisfied that everyone was contributing equally.
- (iv) Outside of work hours, syndicate members tended to each go their own way. Their main social contacts were usually people not involved with the syndicate.
- (v) Few of the most complex syndicates still in operation have been formed by members who, at the time of formation, were particularly close friends. They were formed by people who could see a business advantage in syndication. Naturally, some degree of trust and respect had to be developed before a syndicate was formed.

2.4 There is a Need for Good Communication

Most syndicates where labour is shared have to make a conscious effort to keep members and wives fully informed of developments. One syndicate has installed two-way radios in the house as well as the vehicles and tractors to keep everyone well informed and to provide immediate contact should a crisis arise.

The need to keep members and wives informed of developments and to participate in decision making cannot be over emphasized. Lack of communication is a major cause of syndicate disharmony. Wives in particular, can often become dissatisfied. While the husband is in constant contact with the syndicate operation, the wife may feel more isolated from the farm business than when the husband was working as an individual, especially if the husband is working on another farm and can't be readily contacted.

It is important that this source of dissatisfaction be minimized through good communication and fair treatment of each syndicate member. Lack of attention to communication can lead to factions forming within the syndicate which, if not solved through adequate discussion and fair treatment to all, can lead to the collapse of a syndicate.

3 Conclusion

With a few exceptions, syndicate members visited seemed satisfied with the performance of the syndicate, although the sample was biased because no effort was made to contact members of failed syndicates. Most members thought there had been financial advantages in being involved with syndicates but could not elaborate because it was impossible to compare their position to how they would have performed had they continued to operate individually. For whole farm syndicates, or syndicates where labour is shared, other non-financial advantages such as being able to go on holidays (or suffer illness) and have someone to take over who understands the operation of the farm, are advantages that rank highly. It is often these non-financial advantages that are mentioned as the main reasons for the syndicate success.

Growth of the two whole-farm syndicates visited (in terms of area cropped per man) has increased considerably. The increase has been achieved largely by leasing land and using large equipment but some individuals have purchased additional blocks of land which is then operated by the syndicate.

Syndication can be used to advantage by almost any farmer except perhaps the extremely large. On almost any farm there are labour saving devices that are not fully utilized and the ownership could be between a number of individuals (Crabb 1973; Davies and Brownscombe 1978). The more sophisticated types of syndicates requiring agreements and some form of management will not appeal to every individual and will only work if there is harmony, a good set of rules and member honesty.

The formation of a number of syndicates was helped because some of the farmers were small and could see that the "cost-price squeeze" was threatening their survival. However, it requires money for legal fees and considerable time in negotiating and "soul searching" before a syndicate is operating.

Despite the selling off of surplus machinery, most syndicates still have begun with a special capital contribution because the syndicate usually grades up to newer and larger equipment. However, grading up to larger machinery may not be necessary and providing suitable members can be found, syndication can have a place for low-income farmers where capital requirements may be lessened. It even may enable a low-income farmer more time to take outside employment whilst still retaining a similar or improved income from his farm. A more receptive audience however, should be those farmers who can at least find enough capital to pay for legal fees and finance implementation.

Finding compatible partners will be a major problem and one that should not be taken lightly. However, providing that farmers have similar aims, there is potential for syndication. As mentioned in section 2.3, members are rarely close friends before commencing syndication and generally still lead separate social lives after syndication has commenced.

With the advantages claimed so far, a legitimate question is "why are there so few syndicates operating in Australia?" It is true that growth in syndication has been slow and it is unlikely to expand quickly over the next decade.

Reasons for slow growth include—

- (i) Lack of professional knowledge in setting up syndicates (accountants, solicitors, consultants).
- (ii) Lack of financial pressure to syndicate—"If you are making a living on your own, why syndicate?". This supports the hypothesis that farmers are not profit maximizers.
- (iii) Lack of successful operating examples to show that syndication can work.
- (iv) Lack of confidence by farmers to enter into business relationships with other farmers.

It is expected that once more examples of successful syndicates are in existence, there will be an expanded base for an increase in the rate of formation of new syndicates.

Any research into benefits of syndication will suffer from credibility problems. Even if it can be shown that there has been capital or labour savings, or a reduction in overheads through more intensive use of machinery, an organisational framework for the successful operation of the syndicate must exist. It requires work and often money to form and maintain this framework and there is no guarantee of its continued success. The management requirement is more complex and therefore more prone to failure. Because of this unknown, the future efficiency of operation of a syndicate cannot be gauged accurately, however, some idea of its potential is known. Past performance on the other hand can be documented, but this still does not provide all of the answers because it is impossible to say how syndicate members would have performed as individuals.

Theoretical issues of cost savings and other benefits have now been thoroughly covered. The most worthy research into syndication that remains to be done is the detailed documentation of case studies of the performance and operation of actual operating syndicates.

One piece of pertinent advice received during the study tour was that before the complete advantages of syndication can be appreciated, farmers must have an understanding of machinery costs and of budgeting. Until farmers have this knowledge, the extension of advantages of syndication is difficult. On the assumption that many farmers do not possess a good working knowledge of machinery costs and budgeting, some groundwork is necessary in these areas before extension work on syndication will be most beneficial.

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