

Family Farm Business Decisions

Better Outcomes from Improved Decisions

A report for



By Derek Tiller

2015 Nuffield Scholar

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Executive Summary

"Decision is the spark that ignites action. Until a decision is made, nothing happens.... Decision is the courageous facing of issues, knowing that if they are not faced, problems will remain forever unanswered." Wilfred A. Peterson – Author.

Family farms continue to play an important role in today's agriculture. The family farm has been a strong contributor to the increases in production output of the agricultural sector, despite facing the on-going challenges of environmental change, evolving consumer demand, increasing government policy and the continued decline in the agricultural sectors terms of trade.

Making good decisions is vital for a family farming business to remain sustainable, resilient and responsive to the challenges and opportunities presented. The consequences of a poor decision or a series of them, could take a lifetime of recovery. Making these important decisions by utilising every possible resource makes perfect sense. At the very least it makes more sense than being negligent in the decision-making process. Choosing what is right for a farm business is first a matter of knowing what options are available and identifying what deficiencies exist in the business.

For the purpose of this report, the factors that can help improved decisions in a family farm situation have been divided into three main categories: 1) Macro Manage, 2) Formalize, and 3) Resource (See Figure 2). With the use of the three main focus categories, it is possible to self-assess a business and identify areas that require improvement.

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Abbreviations

COP	Cost of Production
EOS	Entrepreneurial Operating System
KPI	Key Performance Indicator
ROI	Return on Investment

Foreword

Agronomy and farm operations have always been strengths in our business, so naturally I chose an agronomic topic for my Nuffield Scholarship study. However, I soon became aware that sustainable, resilient and responsive farming businesses require much more than incremental increase in production. Indeed, the innovations for improved crop production could drive us towards greater intensification and increased cost of production, which in turn can place limitations in farm expansion.

This realisation, which occurred during my Nuffield travels, changed the focus of my study. I switched from paddock management to business management and how key decisions are made in family farm businesses.

With my brother Clinton, I jointly manage Pinery Grain Growers, which farms 4,000 hectares of wheat, barley and lentils at Pinery, on the Adelaide Plains of South Australia. My parents John and Christine are also involved in the day-to-day running of the business.

Due to the time spent on Nuffield travels during 2015 and 2016, we employed our first workman. Kevin has been a welcome inclusion to our business and has been the right man for the job during some testing times. On 25 November 2015, my family farm, community and region were exposed to a catastrophic fire event. It was known widely as 'The Pinery Fire'. This fire was on an enormous scale. Within an afternoon the fire had burned 85,000 hectares with a perimeter of over 200 km. The losses included 87 homes, countless items of farm machinery, livestock, burns victims and two lives. The affects will, without doubt, last a lifetime.

One of the lives lost in the Pinery fire was my Uncle Alan, a brother to my dad. Alan Tiller was a fourth-generation farmer at Pinery, a neighbour to our family for my whole life and a very good friend. He leaves behind his wife Jenny, four adult children and six grandchildren.



Figure 1: Alan Tiller loved farming and his old farm machinery (2006)

Alan Tiller is pictured with my grandfathers' Sunshine Harvester and Massey Harris 744 that he had kept in running order.

The relevance of the fire to my Nuffield topic is the significant strain this event has put on our family farming businesses. It has tested our resilience and that of all affected by the Pinery fire and now motivates us to prepare for any other risks that we face in farming.

Resilience is an outstanding attribute to have. But how do you know your business has the resilience required to recover from an event like that until it happens?

This report includes findings on how to improve resilience and other important strengths within a family business to achieve a better outcome as a result of better decisions in any given situation.

Due to the investment from Nufarm Australia, I had the privilege of travelling to twelve countries over an 18-month period, including France, Belgium, England, United States of America, Canada, Brazil, Germany, Czech Republic, Poland, Kenya, South Africa and New Zealand.

Travelling for 16-weeks through those 12 vastly different countries gave me the chance to meet some amazing people and to see countless farms and agricultural related businesses. All of them with a different story to tell and experiences to share.

In particular, time spent in Canada and USA showed similar issues of informal decision making in family business as experienced in Australia. This time provided the opportunity for discussions with people who are providing services to address these issues.

The Bahia and Goias States of Brazil are places where farm scale is enormous. Much can be learnt from how they manage the challenges they face with bureaucracy, red tape and corruption, or what they call "the cost of doing business in Brazil".

New Zealand's North Island was the third and final destination where I was able to meet with farmers that were exercising some of my previous learning's. This gave me greater clarity on how to structure this report and what to implement on my own farm.

Acknowledgments



I wish to thank my wife Karin and our three children Thomas, Fergus and Sophie, for their unconditional support.

My brother Clinton, my parents John and Christine for covering for me while I have been away.

Nuffield Australia for the trust it has shown me and the experience it provided.

Nufarm Australia for their generous support. Nufarm has not only been of financial assistance, but also provided valuable travel and topic advice along the way. I thank Aaron Edmunds, National Manager, Corporate Agriculture at Nufarm, for his assistance. This allowed me to participate with limited financial burden on the farm business.

My Global Focus Program Group for ongoing friendship.

All Nuffield Scholars far and wide that I have met along the way for sharing your knowledge and love of agriculture.

My travel mates on the Canada, USA and Brazil trip, Andrew Baldock, Adam McVeigh, Sally Thompson, Colin Hudon, Reece Curwen and Jim Halford for their insight into my topic.

My cousin Jed Dunstan of JMD Cartoons for his amusing interpretation of quotes.

My media mentor and fellow Nuffield Scholar Emma Leonard for her generous time spent editing.

Objectives

The key objectives of my Nuffield Farming Scholarship were to:

- Investigate what structures and processes family farming businesses use to ensure sound decisions are made.
- Understand what resources are available for family farms to assist in making sound decisions.
- Discover what benefits and opportunities exist as a result of sound decisions within a family farm business.

Chapter 1: Introduction

During a Fire Recovery Workshop in December 2015, Dennis Hoiberg of Lessons Learnt Consulting asked, “Why do you do what you do?”

Dennis proposed that if you cannot answer this in three seconds you are psychologically exposed; you lack resilience, which is your ability to bounce forward and thrive through change and challenge.

“Understanding the WHY in your life gives great direction and overrides the negative stresses with positive resilience”. Dennis Hoiberg.

The main purpose of this report is to examine what farmers are doing to ensure good decisions are being made to help them manage risk and to thrive. Resilience is one of the desired outcomes of having a reliable decision-making process. A resilient family farming business will thrive rather than just survive after adversity.

The experience with the Pinery Fire highlighted that a decision-making process can be vulnerable to mistakes if not structured well. There were many decisions that needed to be made at the early stage of recovery. The priorities of the business had quickly shifted and there was an increased level of stress, fatigue, workload and grief to deal with. To not learn a lesson from this experience would be negligent on a personal and professional level.

During a meeting in Canada with Reg Shandro, Farmacist Advisory Service he said: *“First time you’re a victim, second time you’re a volunteer.”*

This sentiment clarified that every effort must be made so that next time the unexpected occurs, the team and the business is in a position to manage or capitalise on the situation. Bearing in mind the unexpected does not have to be a bad or negative happening. It may well be an opportunity that if responded to properly, will grow the business.

For the purpose of this report the strength of a family farming business is described by its sustainability, resilience and responsiveness (Figure 2). These are the desired outcomes of a strong structure for making decisions within a family farm business.

- Sustainability - environmental, financial and generational continuity.
- Resilience –management of adversity.
- Responsiveness–ability to capitalize on opportunity. In order to achieve this outcome, family farming businesses need to consider how they manage and resource the business.

Figure 2 illustrates the components that need to be considered and developed in order to improve the decision-making process and to lead to actions that achieve the desired outcome of sustainable, resilient and responsive businesses.

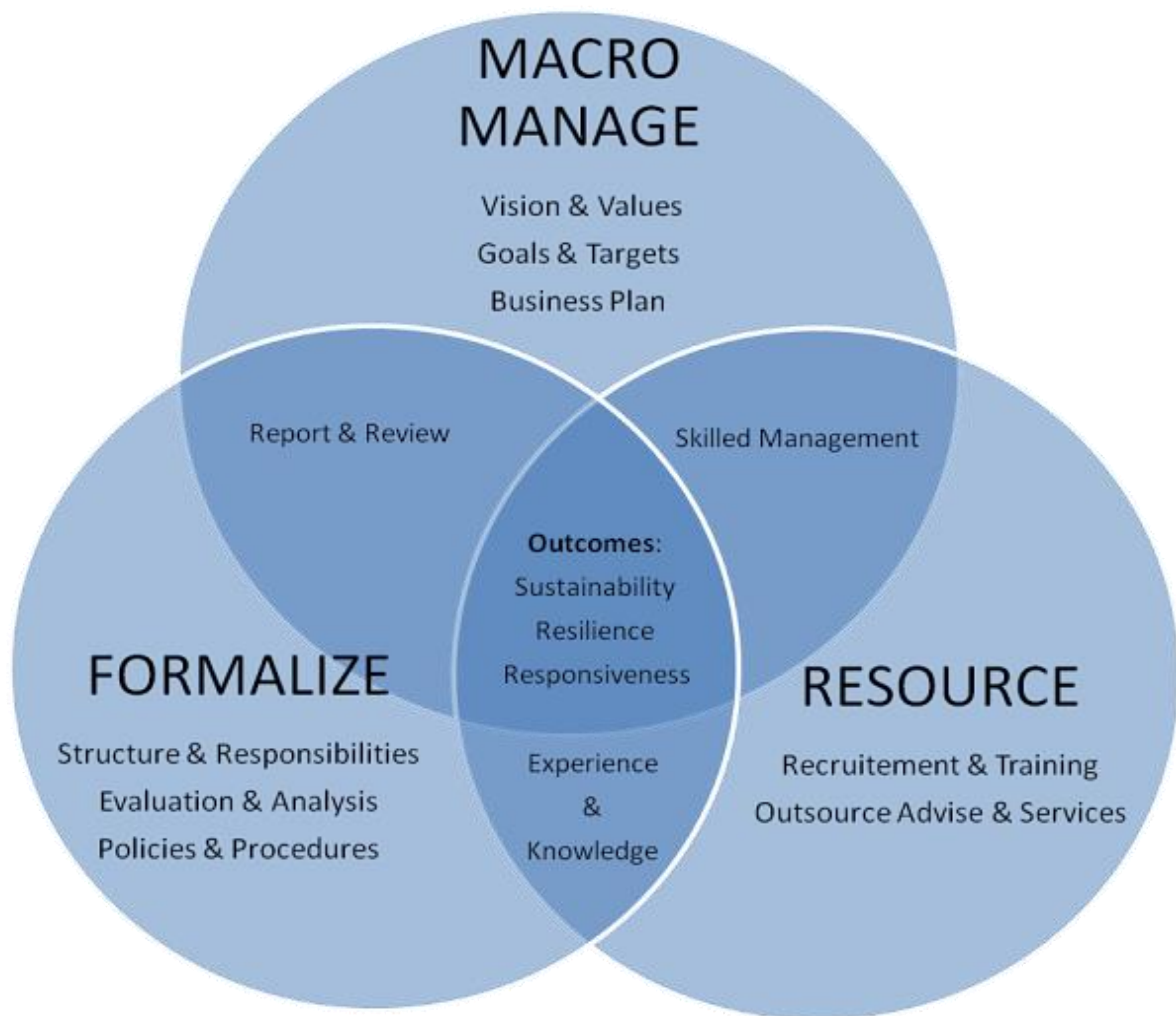


Figure 2: Components for improving decisions on family farms, Derek Tiller 2015

1.1: Family Farming

Making good decisions is crucial to the success of any business. For a business with a sole decision maker it is a more straightforward process. A sole decision maker is able to make choices based on their own needs and have a greater acceptance of the consequences of any incorrect choices.

When a family farm consists of multiple generations and/or siblings it becomes a more complex process. Making decisions that meet the needs of all involved and improving the business at the same time is a great challenge. This can often result in conflict and misdirection between family members.

During a meeting with Andrew DeRuyck of Right Choice Management Consultancy in Canada, he referred to the 'Generational Decline', when he said, "*Wealth does not pass three generations.*" See Figure 3.

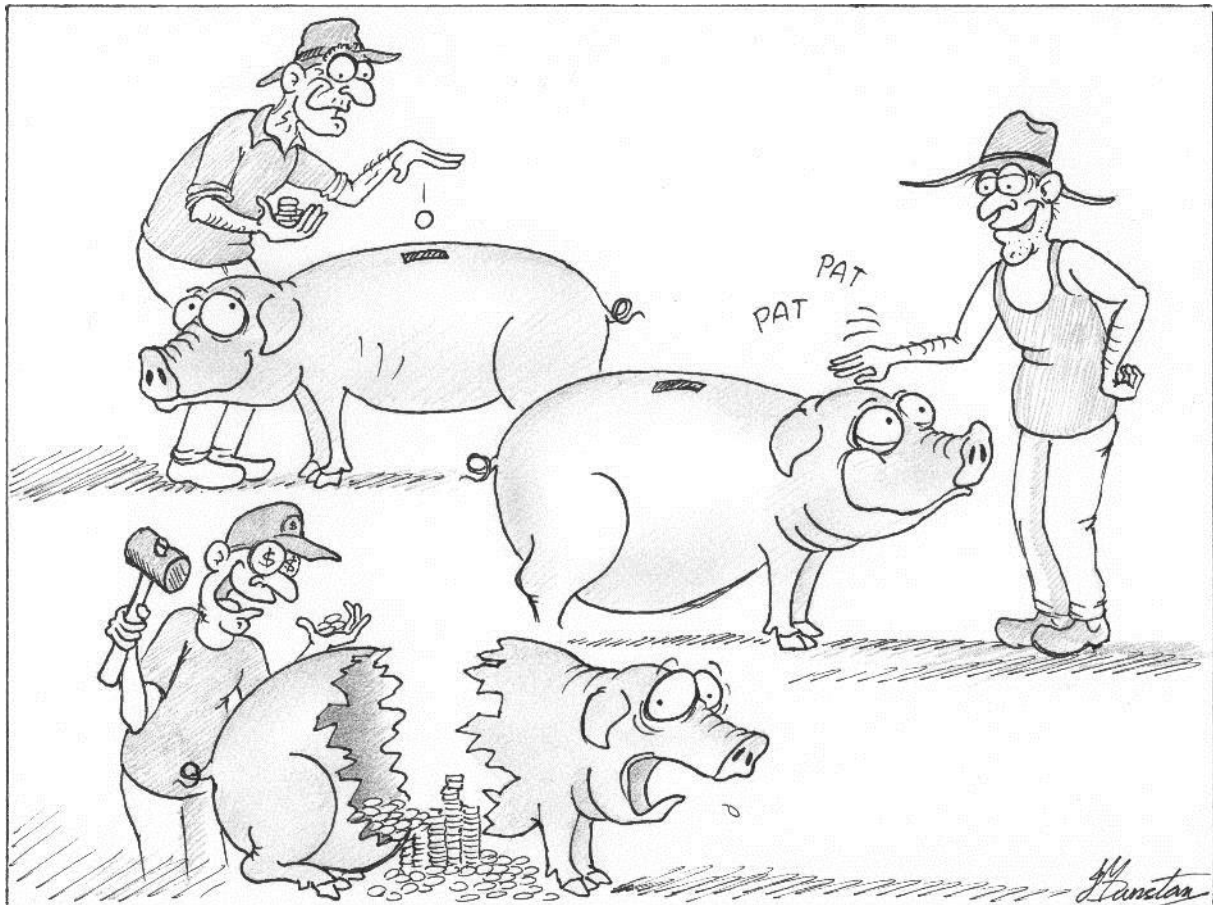


Figure 3: "Wealth does not pass three generations" Andrew DeRuyck

This saying goes back to an old Chinese expression that suggests this:

- The first generation creates the wealth.
- The second generation preserves the wealth.
- The third generation is responsible for the destruction of the wealth as they lose sight of the values that were once important to the previous two generations.

This may not always be true, but it does reflect on a deeply ingrained problem with building wealth in a family business.

By adopting a more inclusive process to making decisions, farming families will be better equipped to build on their strengths, to protect the family's assets and minimise the risk of personal and business failure.

The alternative of this is discontent between the people within the family, which can result in the division of the farm. This could be a viable option for some farmers but it has the consequence of reduced scale of the whole business, therefore affecting the sustainability, resilience and responsiveness of the business.

With a trend toward share farming, leasing and collaborative farm ventures for the primary reason of increasing farm scale and improving efficiencies, it is easy to see that farm division is less than ideal.

There are more risks to a family farm business than just the human element. The Australian Government, Bureau of Meteorology report into Weather Climate Risk in Agriculture, put the risk to agriculture in Australia into five categories: Production, Market, Financial, Institutional and Human.

“Australian farmers are often said to operate in one of the riskiest environments in the world. While farming businesses face many sources of risk, the variability of Australian weather and climate is one of the most difficult risks to manage. Indeed, most activities in Australian agriculture have at least some climate-related risk component” (Bureau of Meteorology weather and Climate Risk in Agriculture, p 1).

As an example, the Pinery Fire covered all of these risk categories:

- Production: crop loss, lack of soil cover for the following season.
- Market: inability to fill grain contract due to lost crop; a surge of machinery replacement caused strong used machinery demand.
- Financial: unplanned capital expenditure for fencing, machinery, earth works etc.; insufficient insurance to cover losses.
- Institutional: availability of recovery grants.
- Human: death or injury; stress and fatigue.

This is an example of why farming families need to be proactive in developing a structure and the skills they need that will give them the positive outcomes of sustainability, resilience and responsiveness.

Given all of these unknown circumstances that can arise in agriculture it is no wonder that decision making can be difficult. That variability and the uncertainty that exist is why a long-term plan for making good decisions should be of high priority to all family farm businesses. But making these decisions does not have to be done without support.

Chapter 2: Macro Management

The improvements in agronomy and animal husbandry in recent years have been well publicised. Australian farmers are more productive and more efficient than ever. The Australian Productivity Commission puts the Growth in Australian Agricultural Output annual trend rate at 3.5 percent increase per annum between 1974 and 2004.

But output growth is not necessarily a reflection of business stability. During a meeting in Winnipeg, Canada, Terry Betker of Backswath Management Inc. stated that:

“The most common cause of farms going belly up is: large growth, high debt, low equity and poor management systems with too much focus on crop performance- too much micro and not enough macro analysis”.

Macro management is a term that is commonly used for the executive management of a business. While micro-management refers to the day-to-day issues within a business, like agronomy and animal husbandry in farming

Observations during this Nuffield Scholarship study were that some farms are good at micro and others good at the macro management. This trend was leaning strongly in favour of the larger corporate farms being the better macro managers. They were not necessarily poor at micro-management like agronomy and animal husbandry but they lacked the attention to detail in this area compared to the family farm.

On the flip side, operators of family farms often lack the ability to present the ‘big picture’ vision of their business, but they did possess a great passion for the operational side. The family farms that were achieving in all areas were those that had spent a great deal of time on skills training, financial analysis and the structure of their business.

To implement macro management requires a business to introduce structure (see Chapter 3), goals and plans and to report against these plans.

2.1: Vision and Values

In the corporate world, an organisation will often appoint a Board of Directors. These directors are bound by the organisation bylaws. Among other things, the bylaws include visions, goals and targets that give the directors guidelines to which they make decisions on behalf of the organisation.

Without bylaws or the equivalent many farms may be ill equipped in knowing the direction their business is going. Add to this the complication of multi generation and co-sibling management and ownership, and it is easy to see that a family farm is vulnerable to the risk of poor choices if every person is not aware of the direction that is best for the business.

To create the vision, it is important to have an understanding of each other's dreams and aspirations.

Establishing and writing down the vision and values for a business is an important first step in macro management and moving towards a formalised decision process.

Dairy New Zealand has developed a strategic planning workshop called 'Design your Pathway to Success.' It aims to assist farm owners and share-milkers to adopt some of this corporate thinking and develop a strategic plan for their life and business.

Dairy New Zealand believes 'the most successful and happy farmers have real clarity of direction and are always working towards and achieving goals.'

The breakdown of this workshop as described in the workbook is:

VISION AND VALUES – A vision is a high level or over-arching statement that describes what you want your life to be like and the principles or values you want to live by. It includes three main areas. What important things do you want to have, what contributions and accomplishments you would like to make and type of person you want to be.

GOALS AND ACTIONS – Clarify what are the important goals you want to achieve and what things need to happen for these goals to be reached. There are four focus areas: Financial Planning, Production, People and Lifestyle."

The final part is to place a simplified version of Vision, Values, Goals and Actions in a visible place within the workspace. Keeping this updated and at the front of mind. "Look at it daily and you will discover the daily decisions you will make will become aligned with your Vision and Goals".

To have all members of a family farm business complete a program like this will give all involved a greater understanding of themselves and each other. There is a lot to consider here on a personal level that will affect the way you run the farm business as a combined group of individuals. It is important to find the right balance here between personal goals and what is right for the business long term and what will drive it in the right direction.

2.2: Goals and Targets

The setting of goals provides the business with a direction, while targets provide the end point. If all within the business have the same end point in mind, working together and making decisions along the way will be more achievable.

For example, goals could be set in order to maintain a common focus of growth, quality of produce, soil health, wealth generation, lifestyle or succession. Whereas targets can provide

a quantifiable or statistically measurable end point. Key performance indicators could be used for this targeted measure. For instance, the business could have a target of increasing equity by 15 percent within ten years.

Travelling in the USA with Alan Richardson, the author learnt about the latest management buzz phrase: Entrepreneurial Operating System (EOS). Alan is Chief Operating Officer and Business Advisor for Transition Point Business Advisors and a Certified EOS Advisor.

The EOS was developed by Gino Wickman and is explained in his book Traction.

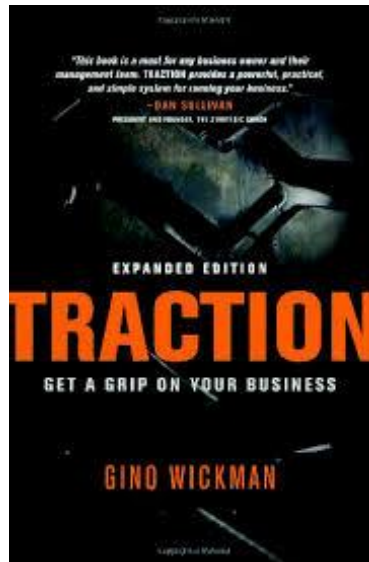


Figure 4: The EOS was developed by Gino Wickman, and features in his book Traction

There are six components of Gino Wickman's EOS:

- Vision: Do they see what you are saying?
- People: Surround yourself with good people.
- Data: Safety in numbers.
- Issues: Decide!
- Process: Finding your way.
- Traction: From Luftmensch to Action. (Luftmensch: a person unconcerned with the practicalities of earning a living; Collins English dictionary).

In his book, he asks: “Do you have a grip on your business or does it have a grip on you?” He discusses his concept that he believes will help business managers take better control of their business. He makes observations of businesses that have survived for decades because they have long-term targets in place, sometimes out as far as 25 years. It’s questionable whether any target this far out aside from farm succession and retirement can be relevant.

“One common thread unites successful companies. All of them have a habit of setting achievable goals. That’s why I am constantly amazed by the number of entrepreneurs who cannot tell me what their number one goal is. To me, they are like rudderless ships.” (Gino Wickman, Traction, Get a grip on your business.)



Figure 5: “Over positive goals can cause failure”

At a Pinery Fire Recovery Workshop Dennis Hoiberg of Lessons Learnt Consulting said: *“Over positive goals can cause failure”*.

Goals need to be achievable (Figure 5) and when they have been achieved Dennis says that recognition of this achievement is important.

Ambitious goal setting can be useful in driving a business forward as long as those involved know, and are comfortable with, the risks involved. Balancing risk and reward could be the key to setting goals and creating a business plan that suits all involved in the business.

“Failure is a luxury that not everyone can afford” said Charles Back, Fairview Wine and Cheese, Western Cape, South Africa.

Charles Back has taken risks that have paid-off in the past and this has allowed him this luxury of high risk without fear of failure. He has a strong single-minded vision of quality and diversification and this has led him to become a very successful business owner/operator.

An example of how family farms can guide those involved into achieving what is of priority to the partners in the business is the model created by the Morrison Family. After meeting with the Morrison family on their sheep and cattle property at Marton, North Island, New Zealand, it was clear that the introduction of goals and targets to their business had been well received and was having a positive impact.

The Morrison family farm consists of second cousins John and Graham along with John's two sons Richard and William. What was unique about their model was that they had aligned themselves with a goal each and that goal became that person's responsibility. In addition, they have aligned a target in the form of a key performance indicator with each goal, adding a level of accountability to each person's role.

The following are the Morrison Farms simplified goals and key performance indicators (KPIs) that have become their individual roles and responsibilities:

- Grow as much grass/feed as possible – Kg Dry Mater / hectare.
- Turn that feed into as much product as possible – Kg of product / Kg Dry Mater consumed.
- Capture as higher return for the products as possible - \$ / Kg of product sold.
- Have good control of cost of production – Cost \$ / Hectare and Cost \$ / Stock unit.

This appeared to be a very simple and effective method of clearing up the roles of the individuals in the business. It was also giving a level of financial accountability to each other as they would need to meet the requirement of the KPIs. The Morrison's meet to discuss their current operations issues on a weekly basis at management meetings. Each week they appoint an alternate chairperson within the group of four and they had a strong opinion hat voting must be unanimous before anything can go ahead.

2.3: Business Plan

For members of a family farm business to work well together, while meeting diverse personal goals, it is important to create a Business Plan.

The Business Plan is where all the vision and values, goals and targets come together. Essentially the business plan is a document that will give clarity to anyone involved in making decisions on behalf of the business.

Rubens Tonon farms his family property in Goias, Brazil. With the assistance of advisor John Landers OBE, Rubens created a 20-year plan for his farm business in the early years of developing the broad scale cropping farm.



Figure 6: Rubens Tonons of Gaois, Brazil (2015)

This area of Brazil was only opened up to agriculture 30 years ago and Rubens had explained that he was the first generation of mechanised farmers in Brazil. From those two facts alone, it was clear that significant change has taken place on this farm in the 20 years that have passed since the 20-year business plan was created. Rubens claimed that he gained very little from the exercise and that he would not bother to do this again. But perhaps this was because the plan was not regularly reviewed.

A business plan needs to be constantly reviewed and updated to account for change. As is said *“Change is the only constant”* and Brazil has had its fair share. It is also important to be realistic in the plans made and the targets or goals set. If these are unachievable, then the motivation to strive towards them or to set new targets will be less.

2.4: Farm Culture

“Why and for how long?” was the question Stuart Taylor of the OB Group Farm asked about every part of his business before putting together his Farm Culture document? Stuart Taylor is the General Manager of the OB Group, Manawatu/Rangitikei District, North Island, New Zealand.

As the General Manager of the OB Group, it is important for Stuart Taylor to achieve what the company’s shareholders have asked of him. To do this he needed to provide guidance to the workforce. Stuart explained that the company’s Workers Agreements were very closely aligned with the Farm Culture Document in order to make them accountable for their actions.

The OB Group Farm has over 30 employees and Stuart wanted to convey the OB Group's values to his workforce. This is why he created a Farm Culture Document.

This document is aimed at the workforce as well as the key decision makers. It is a concise reminder of what is important to the organisation. It could also be a simplified and brief summary of the Business Plan that is kept visible in the workplace.

This document can give the people involved a continued calibration of mind-set, making it more realistic to agree on ways of managing day to day tasks.

OB Group Farm Culture

Vision Statement

- Create a business that supports a great community of people and a community that supports a great business.
- Be proud to be part of a business that we are proud of. A business that the whole of New Zealand is proud of. We are a good community member.

Goals

- Develop a strong culture where “good people” can grow, develop and allow them to get to where they want to be.
- Maintain the asset and the profitability of the business which protects our community.
- The business is repeatable. Balance the competing needs of people, profitability, animal welfare and the environment.

Plan

- We are professionals, driven to succeed and our work is completed to a high standard. Every day we make it better.
- We protect the life and welfare of the people in our group. Do it safely or not at all.
- Innovate to succeed – (Innovate – Plan – Implement – Review) New/Better ideas create wealth for everyone involved. Everyone's ideas are important and it is the responsibility of everyone to solve problems.
- We adapt and change quickly when situations require change. It is our strength.
- Feedback is a must and aright from the team to management and from management to the team. Everyone is treated fairly and management must lead from the front with simple systems.
- Everyone is 100 percent responsible for their own actions.
- We bring into the teams “good and productive people” and get them to where they want to be.
- Animals are treated with respect and care.

Macro management provides a framework within which decisions can be made and evaluated.

Chapter 3: Formalise

There is much for family businesses to gain from more formalized structures, performance evaluation and documentation of policies and procedures.

3.1: Farm Boards

“How can family farms make better decisions?” The answer from many businesses during the research was to form a board. To those who have worked with a board it was a simple answer. Those interviewed appeared very confident and content, that as a result of having a board make key strategic decisions their business was in a much better position.

Board of Directors’ roles and responsibilities can vary greatly depending on the nature of the organisation that they represent. While the exact details of the roles of the Board of Directors require more investigation, in general terms, the Board of Directors acts as the highest authority of the organisation that they represent.

However, during the research, the term board was not restricted to a Board of Directors. Some businesses had not taken this step but had instituted a board of advisors.

An Advisory Board is a group of people chosen by the Managers/Owners of the business to make recommendations to them on key issues. The decision itself is made by the managers after the recommendations have been considered.

Wikipedia defines an Advisory Board as: *“A body that provides non-binding strategic advice to the management of a corporation, organisation or foundation”*. The informal nature of an advisory board gives greater flexibility in structure and management compared to a Board of Directors.

Generally, members of an Advisory Board do not have the authority to vote and are not liable or responsible for the outcomes of the decisions made based on their recommendations.

Brothers Hew and Roger Dalrymplerun, Waitatapia, farm a 4,000-hectare property in the south of the North Island, New Zealand. They operate under the guidance of an advisory board consisting of Hew and Roger Dalrymple, an independent Chairman and an independent Member. Both the independent members have extensive experience with advisory boards and board of directors in the running of large and small companies.

During an interview with Hew, he explained that when a decision had to be made they would: *“generally adhere to the advice of the Advisory Board. We have good people on our board, so why not trust them.”* Hew added that he would not hesitate to change from an Advisory Board to a Board of Directors to further add accountability to the business.

The Advisory Board gives family farms great flexibility by their non-binding nature, but still allows the gains of formalised discussion while outsourcing knowledge and experience through the independent board members.

The makeup of the Advisory Board and the guideline it operates under is entirely up to the discretion of the farm owners or managers and can be altered at any time. This gives the flexibility to appoint a new member at any time that might have the appropriate skill set for a current situation in the business., It is the addition of the outside expertise that can add strength to the business though the additional competency.

In Australia, the title Advisory Board is to be avoided because it may still fall under the Corporations Act 2001. Meaning that, legally, any Board, whether Board of Directors or Advisory Board, is bound by the legal obligations of the Australian Government Corporate Act 2001.

There is a concern that, with Directors in control, the farm owner may lose some control.

Chris Graf-Grote of Spearhead International alluded to this during a visit to one of their farms in The Czech Republic, saying: *“There are things I’d like to do to improve the agronomy on these farms, but it’s now up to the management boards to decide these things.”*

So why do many farmers report that an overarching often independent management team is so effective? The answer is good outcomes. Bringing the right people into the business is the key to making a board work in the eyes of those interviewed. There can be a weakness in the abilities of those running the family farm. After all, the family farmer is often born to the job rather than the usual best person applying for the job scenario.

Another reason for the improved performance of the business operating under the guidance of an independent management team was accountability. The accountability of the workforce was increased due to the evaluation and analysis of previous decisions that was giving clearer feedback to those responsible for carrying out the plans. This was adding in increased requirement for clearly defined management roles within the business.

3.2: Evaluation and Analysis

During this research, the author was constantly being encouraged to take a closer look at the direction that the business was heading in and that any decisions should be made from the top down with the use of accurate data. In other words, those in the business should look closely at the KPI of the business to assess whether the current, or proposed, farm practice is providing anything more than a small yield gain and whether or not it’s having a whole-farm or macro benefit to the business.

During the research, Reg Shandro of Ag Farmacist Advisory Services Inc Canada, was very generous with his time, preferring to discuss the topic while driving across the Canadian countryside.

He explained that family farms often neglect the macro financial indicators of their business when making decisions on the micro management of the farm. This often affects their cost of production (COP) while chasing higher yields.

He also reinforced the need to have these financial indicators or KPIs accurate and up to date in order to make important decisions on the run.



Figure 7: Pictured L-R are the Author, Reg Shandro and Andrew Baldock (2015 Scholar) in Banff, Canada

Reg also stated that *“Analysis is only useful if you benchmark it against yourself.”* This would help in the analysis of a new farm practice or to calculate farm expansion performance or potential.

KPIs can vary from farm-to-farm as to what is relevant and so can the benchmark parameters for each. Some that are worthy of a mention from a meeting in Canada with Andrew DeRuyck of Right Choice Management Consulting include:

- Overheads that include lease payments should be about equal to district land lease rates.
- Operating costs should be about equal to 50% of gross income.
- Equity should not be less than about 70%. But the bigger the farm the lower equity can go.
- It’s a good exercise to calculate the equity using land values at the time of purchase.

- Achieving a Return on Investment (ROI) of over 2.4 percent per year is required. Do not include land value appreciation in the equation.

These are good examples of financial indicators that farm managers can benchmark themselves against in order to stay on the straight and narrow. They can also be used as long-term targets or as an ongoing policy in a Business Plan to assist with expansion or debt reduction.

Andrew DeRuyck has three options if KPIs suggest that farmers are over capitalised:

- Sell Out - sell all un-needed assets.
- Earn Out - work hard and pay off the debt.
- Borrow Out - reduce annual payments by extending the payment period.

Early identification of an imbalance in the business finances is crucial in avoiding future issues like low equity.

Nearly all family farms visited during the research were eager to express that Financial and Production Analysis was vital in decision-making processes. The purpose of the analysis is to produce reports that clearly present the performance of the business in a way that everyone can understand.

With accurate and up-to-date data, it then becomes possible to run scenarios. Scenarios are useful for testing businesses ability to manage any of the previously discussed risks that relate to agriculture. Any possible projection of production, marketing, finance, institutional and human risks can be run through a scenario and the findings discussed in a formalised meeting.

The findings of these scenarios can have a bearing on the Financial Benchmarks that the decision makers will set as targets, so as to be prepared for any outcome. In addition, the scenarios can be used to prepare the business in expectation of an opportunity that may come forward. Either way, the business has the information required to be better prepared for what is expected and better prepared for the unexpected.

Ross Shaw is the manager of SandGrove Dairy Farm at Reporoa, North Island, New Zealand. During a meeting, he discussed how he has been using scenarios that he says: *“helps with creation of instinct for making decisions”*. An accountant is used to produce the accurate financial figures for this to be completed. He is also part of a Dairy New Zealand Progression Group that he believes is valuable for the Benchmarking. The Progression Group is also run as a Peer Review and Discussion Group that gives advice.

3.3 Policies and Procedures

Documentation of Policies and Procedures provides a guide and reference for improved decision at a practical level. If a farmer has decided that change is required in the running of the business now, and into the future, the correct procedures must be followed. Following these procedures, with the added influence of farm policies, will give consistency and continuity. From this, it is possible to be in greater control of refinements within the business. Also, if a defined procedure is known a farmer is more likely to respond to an issue now rather than leaving it to linger and cause further problems for the business.

This was not an area the study covered in depth but it is clear that this is important and requires further investigation.

3.4 Inclusive Workspace

It has long been a tradition for the business of a family farm to be centred around the kitchen table. While this is convenient for the husband and wife management team that don't mind mixing work life with private life, it does pose issues when the farm and family expand to include more decision makers. For those members of the family that do not have immediate access to the farm office, it is easy for them to become isolated and ill-informed of the financial performance of the business. This is particularly the case if a formalised meeting structure is not followed.

For the large farms of Goais, Brazil, there is simply the reason of scale and the amount of people that are required to manage such a business. They tend to run the farm office from a building in the closest town where they have access to personnel with the capabilities for a specific job requirement. The addition of some difficult bureaucratic issues within Brazilian agriculture means that the viability of the farm can depend on this professionally run, farm office.

In the case of the Shaw family from Swift Current, Canada, the motivation for building a farm office was a growing family and expanding business. At the time of the author's visit, they were building a new workshop facility. The building of a new farm office was made easier by incorporating it into the structure of their new workshop along with a lunchroom for themselves and their workforce. Centralising their operation in a region that sees several months of snow cover every year was expected to have a significant impact on the efficiency of their day-to-day duties.



Figure 8: The building of the Shaw family farm office. (2015)

The benefits of this inclusive workspace could be extensive and ongoing. It gives a clear differentiation between work life and home life. It allows all business partners, family or otherwise, to have access at any time. It becomes much easier to integrate outsourced expertise into a neutral and inclusive workspace rather than into the family home and also makes it possible to share some of the roles and responsibilities relating to farm finance and operational management.

Chapter 4: Resource

People are a major resource in any business. Agriculture has typically relied on employees but in this connected age, the opportunity to source skills from across the globe and on a short-term or project basis is more possible.

Identifying the skill sets of the current management team and the seeking to fill the gaps by outsourcing are discussed in this section.

4.1: The Visionaries

Some business managers are gifted visionaries. The English Oxford Living Dictionary (2016) defines this as:

Visionary: 'Thinking about or planning the future with imagination or wisdom. A person with original ideas about what the future will or could be like'.

The possibility that a visionary could exist within the family business is something few would consider. Too often they are dismissed as outspoken dreamers, or something similar.

The concept of the visionary came to the author's attention while reading Gino Wickman's book "Traction: Get a grip on your business". A number of visionaries had already been met as part of the research. What was of concern was how the presence of a visionary in a group decision-making structure could work.

- Were the visionary's abilities going to be diluted and their dreams become less achievable?
- When a gifted visionary is involved in a multi-generation, co-sibling family farm business, how does the visionary exercise their ability without causing conflict within the family business?

The answers to these questions are found in Gino Wickman's book. *"It's important to get them (the people) in the right seats. That means all people are operating in their unique abilities"*

Gino has developed an accountability chart (Figure 9). He states that: *"There are only three major functions in any business – Sales/Marketing – Operations – Finance/Administration,"* and that *"The integrator is the person who harmoniously integrates the major functions of the business."*

The integrator's position is very much the role of a general manager who is responsible for the daily running of the business, accountability of the major functions and to carry out the vision set by the visionary. As seen in Figure 9, the visionary holds a position that oversees the direction of the business. The visionary is "typically the owner, co-owner or founder" of the business.

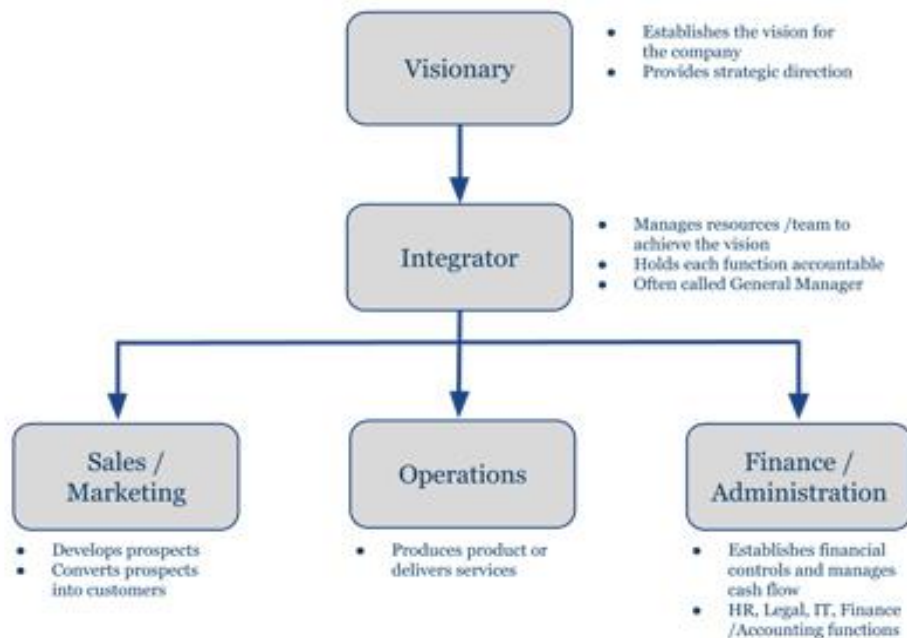


Figure 9: Interpretation of Gino Wickman's Accountability Chart, Dallas Romanowski, Managing Partner, Cornerstone Business Advisors

This is a concept that can allow very different people to apply their abilities to a common cause without stifling the “unique abilities”, as Gino Wickman would put it, of the gifted individual. In a small business, it would be common for the integrator and the visionary to also hold function roles in the business. From this structure, it is intended that up-scaling will be smoother by extending the accountability chart.

One of the gifted visionaries met during the research was Chris Graf-Grote, a 1998 UK Nuffield Scholar and founder of Spearhead International. Chris studied “*Investment Potential into Eastern European Agriculture*” as part of his Nuffield Farming Scholarship.

Since 1998, Spearhead has grown to an 80,000-hectare farming enterprise that spans five countries. After many conversations over a ten-day period travelling through Eastern Europe, it was clear that Mr Graf-Grote had a clear vision and this drew great motivation. With that vision, his choices were made easier.

4.1: Outsourcing

When running a business of any kind, the owner operator should identify and accept that gaps exist in skill sets. In a large-scale operation, there will be room for full-time employment of people with specific skills to fill the gap, and for them to focus their time on the required task. In small- to medium-sized farm business that might only employ a few people, it is difficult to justify full-time specialist employees. However, outsourcing skills is still an option.

Outsourcing of specific tasks was common amongst the small- to medium farms visited. In particular it was those tasks around financial management that the farmer would look outside their business to be completed. The outsourcing of this service was said to be having a great and positive influence on these family farms, but only if the service was adequate and appropriate for the farm.

When meeting Ross Shaw of SandGrove Farm in New Zealand, he explained that he had recently changed accountants to a more appropriate choice. He is now happy that the service that the farm receives is targeted towards the specific needs of the farm and not just for taxation purposes. This is an excellent example of moving on when the service is not good enough to take a business in the direction it needs.

Service providers come in a range of different types. From privately owned, like Backswath Management Canada, to levy funded, like Dairy New Zealand. They offer a range of services to improve the businesses ability to manage finance, operations, human resources, tax management, business structuring, succession planning, goal setting, budgeting and marketing for instance. They are all different in what they offer and can be done on individual or a group basis. Individual sessions provide the in-depth analysis of personal details that a farm manager may not be comfortable discussing in a group format. Whereas the group sessions provide a discussion platform for farm managers to learn from each other, as is the case with peer to peer groups. All of which build on the farmers managerial abilities by way of additional exposure to valuable experience from a sound source of the farmers choosing.

4.2: Targeted advice

Dr Peter Nuthall, Research Fellow at the Lincoln University, Christchurch, makes a good argument for the upskilling of farm managers and the outsourcing of advice and services. Dr Nuthall has released several papers focussing on farmer's abilities covering topics of skill competency, managerial ability and intuition in decision making.

The findings of a survey into what farmers thought to be important skills for them to obtain as farm managers conducted by Dr Nuthall found that farmers believe that the following are important skills:

- people management,
- ability to gather information,
- planning and risk management,
- effective implementation of plans,
- anticipation 'looking ahead',
- accurate observer,
- resists panic and
- decisiveness.

This makes for an attractive list of credentials for any resume. Much of his research looks into how farmers can obtain these abilities so that they can be the skilled manager that is required in today's agriculture industry.

Dr Nuthall concludes that to improve these skills by way of computerised or automated decision support services would be very difficult due to the farm manager reliance on experience and intuition. The use of training services is his preferred avenue in developing these skills and that the intuition will soon follow as a result of the extension of the farmer experience. He makes observations on the importance of colleagues and other farmers along with parents and childhood experience in developing good intuition knowledge.

This reminded the author of a comment made by Andrew DeRuyck of Right Choice Management Consulting in Canada: *"A common strength that I've seen in farms is one that teaches the next generation early"*. See Figure 10.



Figure 10: *"A common strength that I've seen in farms is that they teach the next generation early"*

This early involvement in the farm business may be the experience that is required for the development of some of these important instincts. The importance of colleagues and other farmers in this development of intuition gives support for the use of advisors and others that can provide intuition knowledge from their own unique experiences that will add strength to the running of a farm business. If chosen carefully the advisor or advisors can fill any gaps in the farm manager's abilities or lack of experience with particular issues.

Conclusion



Figure 11: "It doesn't matter which side of the fence you get off on sometimes. What matters most is getting off. You cannot make progress without making decisions"

The informal manner in which business is carried out in many family farming businesses may make it vulnerable to conflict and failure. Formal structures and processors will help achieve a more inclusive function for the wider family as well as assisting with being more prepared, professional and competitive in a global supply chain. For change to happen there will need to be a shift in focus for some family farm managers.

There are many structures and processors available to assist with decision making, like Boards of Directors, Advisory Panels or other forms of formalised method. Whichever process a family choose to implement, they essentially address the same issue, that is the addition of experience and knowledge to the forming of a decision.

But without doubt, those with the authority to make important decisions on behalf of a family farm business cannot do so without the adequate supply of accurate data. Preparation of records and reporting on issues accurately is imperative to the quality of any decision. This was particularly the case during the recovery phase of the Pinery Fire. Many locally affected farmers stated that the 18 months following the fire was said to be the busiest of their lives. Finding time to introduce an appropriate method of financial analysis in order to make key

decisions under those circumstances is difficult. Neglecting the macro management of the business can be easy to do when day-to-day activities are demanding time. Proactively introducing an improved decision-making process will position a business to better manage the unexpected as well as the foreseeable.

Also important is the type and quality of the people and service providers chosen to assist the farm manager in making decisions. An opportunity exists in the selection of these people to fill gaps in the farmer's managerial abilities.

Knowing that there are a vast range of services available should give confidence to those family farms that are unsure that they have the ability within the family to grow the business. Being resourceful by outsourcing these services is of great value to small and medium family farms that do not have the capacity to employ fulltime specialty staff to carry out these tasks.

Whether or not the farmer believes they are running a successful business or not, it is important at times to take a step back and have a look at the business from the outside, avoiding the distraction of lush green crops and shiny new machinery.

The outcome to a sound decision-making process is improved risk management and an increased ability to respond to opportunity. A family farm that has a common focus and shared goals can achieve more and will work better together to make them a reality.

The challenge facing a family farm that is operating under informal, decision-making processes that choose to formalise this structure could be less than those challenges they face if they remain the same.

Recommendations

- **Macro-manage the family business better**, add structure, make plans and create common goals. This will unite the family to achieve what is best for all. By having these common goals, it is possible to create a farm culture that all employees can adhere to. Seek assistance from an experienced advisor to help the family build a business plan.
- **Formalise the decision-making process** and involve experienced others in this. Each member of the family must know their roles and responsibilities and be made accountable for them. These formal meetings are a place for reporting, reviewing and raising issues that may exist in a controlled environment where conflict can be managed.
- **Outsource services that complement the business** and fill gaps in managerial ability. Don't settle for second best in this area. The right people in the business can provide a significant return on investment. Also, seek out training opportunities to help up-skill the workforce within the business.
- **Providing an inclusive workspace for a farm office** is the lynch pin of any of the management strategies discussed in this report. Create a space that can cater for the family, and the workforce. This will improve the access for all members of the farming family and reduce the risk of isolating any individuals. This will be the meeting place for all things work related and give the family and workforce a clear division between work life and home life.

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Plain English Compendium Summary

Project Title: Family Farm Business Decisions	
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Organisation:	Pinery Grain Grower Pty. Ltd. P.O Box 38 Pinery South Australia 5460
Phone:	0438272100
Email:	Derek.pgg@gmail.com
Objectives	<ul style="list-style-type: none">• Investigate what structures and processes family farming businesses use to ensure sound decisions are made;• Understand what resources are available for family farms to assist in making sound decisions;• Discover what benefits and opportunities exist as a result of sound decisions within a family farm business.
Background	During the early stages of thr research travels some weaknesses and strengths were identified in family farm businesses. From this observation, the author was then motivated to change research topic from an agronomy based topic to the business focused topic it is now.
Research	The research focused mostly on family farm business management structures and processes in Canada, USA, Brazil and New Zealand. Some further study was done in Australia as an extension of previous international learning. During the time of the research the author was able to look back at what had been learnt while travelling on the Global Focus Program.
Outcomes	A more sustainably, resilient and more responsive family farm business is the result of applying better macro management, formalising the decision-making process and outsourcing specialty skills, services and training.
Implications	The meaning behind this report is to give insight into options for a farming family to adopt that will improve their decision making on key issues so as every person involved can experience a fulfilling working career.
Publications	In addition to a presentation at the 2016 Nuffield Australia National Conference in Adelaide, there have been various presentations through the Agricultural Bureau of South Australia, Barossa Valley Grape Growers Association and country newspapers