Am I working “in” the business or “on” it? Balancing Governance and Management in Farming Businesses

Kate Butson MPsAg BAgSc
Business Manager Mount Nicholas Ltd

Introduction

A good day’s work on a farm involves going outside, getting your hands dirty and coming home weary at the end of the day, or does it? With the growth of farming businesses it is imperative that we are working “on” our businesses as well as “in” them, but what should the balance of governance and management be? What is the difference between the two? And what are the key elements of governance and management that we need to ensure are present in the business, to provide balance and sustainability. These were just some of the questions I asked when myself when I undertook my Masters Dissertation looking at the issue of balancing governance and management in farming businesses. But firstly, how do we define governance and management?

Governance is defined by Neubauer and Alden (1998) as “a system of processes and structures to direct, control and account for the business at the highest level”. Simplified as it relates to farming businesses we will define it as: working *on the business*, the strategic level, includes long term planning and direction of the business, scenario planning, processes and frameworks, business vision, business renewal and policy setting.

Management is defined by Inkson and Kolb (2002) as “getting things done in organisations through other people”. Management is doing and interacting with others to achieve outcomes for the business. For the purposes farming businesses, management will be defined as: working *in the business*, the operational level, day to day activities, including tasks such as staff management, physical farm work, cash flow management and short term planning.

Relevance

The average size of farms in New Zealand has increased steadily over time. This increase in size has frequently been accompanied by an increase in the complexity of the farming business, both from a physical and a business perspective. The growth in farm size has occurred due to many factors such as succession planning (need to grow the business), perceived economies of scale, capital availability, innovative ownership structures, utilisation of technology, and superior management techniques. As a consequence of this growth farmers have faced an important issue, how much time should be spent working ‘on the business’ verses how much time should be spent working ‘in the business’? What should the balance between governance and management be? Traditionally farmers have worked in the business, completing day to day tasks on the farm. As the size and complexity of their business increases other demands on their time such as staff management, strategic planning, financial planning and review, buying and selling decisions, and policy and compliance issues become much more demanding and time consuming. Farmers often have difficulty distinguishing between governance and management issues of their business and consequently the balance of the two can become disproportionate.

Research

Because there was a limited understanding of the critical success factors required for effectively balancing governance and management in farming businesses data was collected using case studies of six very successful farming businesses throughout the South Island of New Zealand. Participants were sheep, beef or dairy farmers (or a combination), they were all involved in a family owned businesses that farmed three or more properties. These case studies sort to understand how these businesses understood and implemented governance and management activities. Available literature was also examined in the areas of governance and management from a corporate level through to a family farming business level.

Emerging Themes of Governance and Management

During analysis of case study transcripts common themes surfaced amongst the participants. The importance placed on each of these emerging themes varied from case to case, depending on circumstances such as age and stage, size of business and family succession. However in all cases these six themes were constantly eluded to as being vitally important to the business. Whatever the right balance of these themes for a business the same best practices will apply. The time and effort applied to each best practice will vary depending on the present state of the business however all are important if optimal performance is to be achieved.

The best practices are summarised below for each of the emerging themes:

Personal Drivers

- Enjoy challenges and changes in the business
- Value non-physical work
- Money is a means to an end not the end goal

Strategic Planning

- Have a strategic business plan or vision
- In the plan understand *where* you want to go and *why*
- Link the plan to the operational activities of the business

Structure in the Business

- Identify key roles and responsibilities in the business
- Prioritise your activities and manage your time
- Understand the limitations of your structure and when it needs to be reviewed

Operational Decision Making and Processes

- Develop processes that allow day to day physical work to be completed by others
- Processes allow successful practices to be replicated on multiple properties
- Operational decision making has to reduce to allow time to be spent on governance

Human Resource Management and Communication

- Assist employees to develop and progress
- Regular, open communication, both formally and informally is vital
- Remember, if you aren't interested in helping your employees achieve their goals, then why would they be interested in helping you achieve yours?

Family and Community Goals

- Differentiate between family and business goals
- Don't pressure children to join the business
- Be prepared to share knowledge and skills with others in the community or industry

Linking the Emerging Themes

These emerging themes can be classified into four groups and linked together in diagrammatic form (Figure 1). Of the four groups, the lower triangle, operational activities, is management based. The remaining three are governance based principles; business goals, personal goals and family goals.

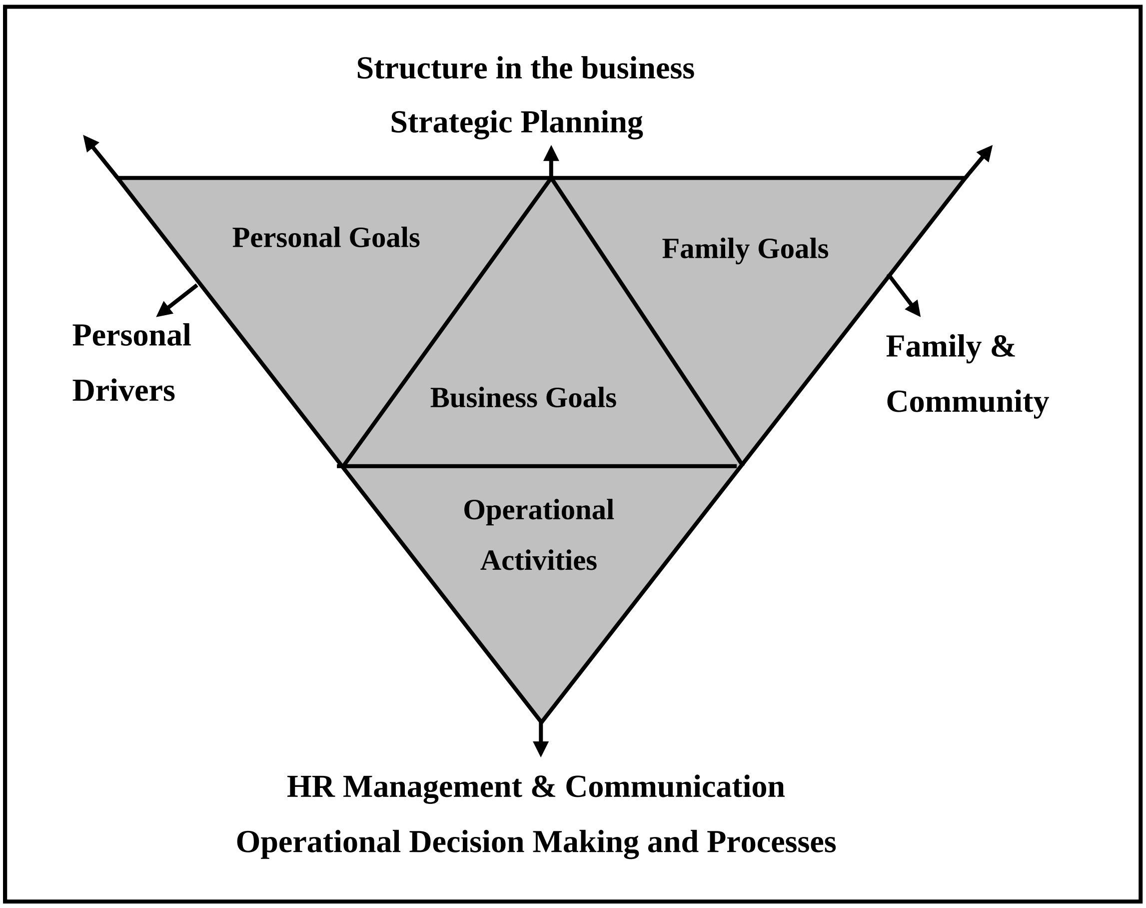

Figure 1: Balancing Governance and Management

There are four central principals in the model:

Firstly; that a sound functional base is required to build the business from. This base is the <u>*operational activities*</u> of the business. If human resource management and communication and operational decision making and processes are well developed then time becomes available for the business owner to widen their focus to include more aspects of governance as well as management.

Secondly; having time available to spend on <u>*business goals*</u> allows the strategy and structure of the business to develop enabling and encouraging growth and providing capacity to manage and govern the business in a multiple property scenario.

Thirdly; supporting and guiding the business goals are the *personal goals* and *family goals.* These act as a guide for the business goals and ensure that the business is congruent with the individual and family values and principals.

Finally; the element of *balance*, the shape of the conceptual model mimics the requirements of a real business, to balance governance and management. Spending too much time on either governance or management unbalances the business and hinders performance, growth, and satisfaction. Focusing entirely on governance but placing no emphasis on management may result in loss of focus on operational management activities which are the building blocks of a strong business. For example, purchasing properties that fit with future strategy but cannot be operated under the existing management structure.

The exact balance of how much time should be spent on governance and management activities will vary from business to business depending on several factors such as; the size of the business, the number of properties, other business interests, complexity due to different type of properties owned, and the number of people involved in the business. The balance will also change within a business as the business structure develops and the business expands or consolidates over time. Finding the correct balance for a business requires a thorough examination of the current balance of governance and management in the business and the strengths and weaknesses of the current balance. It may be useful for businesses to utilise a third party in this exercise to provide a more objective opinion of the business. From this, the conceptual model best practices should be utilised to build on the strengths and mitigate the weaknesses of the business until a balance that is congruent with the business, personal and family goals is reached.

Bibliography

Davis, John. (2001). *Governing the Family Run Business*. HBS Working Knowledge. [Online]. Available. http://hbswk.hbs.edu/item/2469.html [16 June, 2007].

Inkson, K and Kolb, D. (2002) *Management perspectives for New Zealand* (3rd ed.). Prentice Hall.

Kenyon-Rouvinez, D. and Ward, J. (2005). *Family Business: Key issues*. Barns & Noble.

Ministry of Maori Development. (2003). *Business Success and Maori Organisational Governance Management Study*. Wellington, Ministry of Maori Development and Federation of Maori Authorities Inc.

Neubauer, Fred and Alden, G. Lank. (1998) *The Family Business In Governance for Sustainability*. Palgrave Macmillan.

Shadbolt, Nicola and Martin, Sandra. (2005). *Farm Management in New Zealand*. Oxford University Press.

Ward, J. L. (2004). *Perpetuating the Family Business: 50 Lessons Learned from Long Lasting, Successful Families in Business*. Palgrave Macmillan.