

BUSINESS MANAGEMENT FACT SHEET

FARM ADVISORY BOARDS

Advisory boards can strengthen accountability to lift productivity and profitability without compromising traditional farm ownership autonomy. They can also reduce stress upon individual growers and their immediate families by sharing and consolidating the process of strategic and tactical decisions.

KEY POINTS

- ▶ Advisory boards can contribute to an improved bottom line by providing decision support, setting guidelines for prudent budgeting and expenditure, and keeping informed and ready for new opportunities and innovations.
- ▶ Advisory boards can reduce emotion in decision-making, leading to more considered choices. This can ease stress and have mental health benefits.
- ▶ When functioning properly an advisory board requires a small investment in time and money which leads to improved resource and workplace efficiency.

Innovative growers implement management ideas from mainstream business to improve their business management, governance and performance. Greater attention is given to farm advisory boards, which are based on sound organisational and business practices.

An advisory board comprises family members and selected individuals whose experiences assist high-level strategic planning and farm-management policy and guideline development.^{1,2,3} For example, an advisory board may comprise family members and external people. Family members need not be directly involved in the daily operations of the business.¹

Advisory boards should hold face-to-face meetings at least four times a year to be effective.^{1,4,5}


PHOTO: NICOLE BAXTER

Face-to-face farm advisory board meetings are held regularly and bring a range of perspectives to sharpen long-term strategies. They are a useful forum to assist succession planning.

Background

Family farm management structures have changed little compared with the technological, agronomic and marketing transformations of the past 25 years. The financial and emotional pressures on grain growing families are now at unprecedented levels, and increased productivity gains are becoming more elusive.

Farm income for many family businesses has tripled over the past 20 years, reflecting the increased scale and complexity of the enterprise mix. Financial risk has also increased. An Australian family business survey found that businesses with advisory boards performed better business-wise and in achieving family-oriented goals.⁶

Unlike the mainstream small business sector, only a minority of farms have an advisory board structure where family members' and outsiders' intellectual contributions are brought together at the same time.³ However, there is now an increasing number of Australian growers who have introduced an advisory board to their enterprises' management structure.⁷ The increased interest in farm advisory boards in Australia is also occurring in other parts of the world, such as Canada.^{8,9}

The 2015 Agricultural Competitiveness White Paper recognises that farm management structures will have to continue to modernise in the face of declining productivity growth, future capital requirements and marketing challenges.¹⁰

Farm enterprises with established advisory boards that have a structured approach to collaborative decision-making with an emphasis on the importance of rational choice can positively reduce the emotional aspects of decision-making.¹¹

What does a board do?

Advisory boards are about questioning, challenging decision-making, identifying goals, setting strategies to reach them and monitoring progress.¹² The skillsets that may be invited onto a board can vary depending on the farm enterprise's short and medium-term needs.⁸ Not all members need to have direct agricultural experience.⁸

They do not have to live or work near the farm business. For example, a West Australian farm flies a Victorian grain grower to advisory board meetings.¹¹

Human resources assistance

A cropping and merino business owned by a couple with four children established a board following experience with Executive Link in the mid-1990s. The board included external members, and invited existing advisers to meetings on an as-needs basis. The board established human resources policies that included job descriptions and key performance indicators for all roles. The board also played a role in guiding succession planning. One daughter studied health sciences, but by age 23 took the surprise decision of wanting to return to the farm. The board assisted by identifying a long-term role for her as livestock manager. It also set up a mentoring program for her. More than a decade on and now with children, the daughter is part-owner and recognised as a leading grower in the district.

It is counterproductive to invite people onto a board who are not likely to scrutinise issues or challenge the business with alternative feedback.⁸ Members can bring a variety of skills and experience to the board including:

- ▶ business management;
- ▶ financial;
- ▶ change management;
- ▶ human resources;
- ▶ marketing; or
- ▶ experience from other industries, agriculture or non-agriculture.

Regardless of the members' skills, an advisory board does not replace specific operational advice provided by professionals such as accountants, agronomists or farm business advisers.^{3,7} These experts may be invited to attend advisory board meetings on an as-needs basis.

Advisory boards are not regulated under the Corporation Act if the farm business is not a registered company.

The role of the Chair of an advisory board is to encourage all members to contribute equally and ensure meetings are conducted respectfully. Effective advisory boards often appoint an external person to be Chair.

The advisory board should also include at least one person able to prepare paperwork

before meetings and document meeting deliberations.

Effective boards encourage rational decision-making and appropriate innovation. For example, a board can develop purchasing policies which require that a feasibility study be submitted before making significant investment decisions.⁷

The types of policies that advisory boards may create include:

- ▶ decision-making processes;
- ▶ land acquisition;
- ▶ machinery maintenance and replacement;
- ▶ business planning;
- ▶ workplace health and safety;
- ▶ human resource management; and
- ▶ budgeting.

Advantages

Reducing or avoiding mistakes: carefully considered rational vetting of strategic and operational decisions can reduce the likelihood of incorrect decisions. This can save money.

Stay focused on strategy and the big picture: the board does not hone in on specific operational matters. Instead policies, frameworks and guidelines are set.

PHOTO: PAUL JONES



Advisory boards can provide guidance and counsel during succession planning, such as mentoring the next generation as they finish their education and look to see where their talents can be nurtured during the transition to part or full-time farm work and management.

FIGURE 1 An example of the roles and contributors in different decision types and how they interact in a farm business.

DECISION TYPES	ROLES	CONTRIBUTORS
Strategic (long term, big picture)	Advisory board	Family, advisers, other growers and/or business people
Tactical (annual, seasonal)	Managers	Family, employees
Operational and transactional (short term, weekly/daily)	Delivery	Family, employees, contractors

Note: Individuals can have roles across multiple types of decisions.

These then help focus actual operations. Having a board also means time is dedicated to working on the business, instead of continually being dragged into the day-to-day operations of the business.

Design a profitable business model: fresh eyes and new ideas based on experience from other businesses (including from other industries) can generate farm business shifts that can improve profitability.⁴

Improved confidence: a well-functioning, high-quality board helps filter out poor strategies and decisions. Directions set are more thoroughly thought through, so farm operators can feel more confident in their decisions and actions.

Accountability: makes it harder for decisions and actions to be put off through procrastination. Boards set actions, and performance measures including key performance indicators. Reporting on these and having deadlines makes it more likely that important tasks get done.

Emotions, stress and mental health: having multiple people contribute to decisions, such as land expansion or enterprise mix, spreads the burden. If the board has considered an issue and taken a decision, the business members are more reassured that subsequent actions were appropriate.

Better budgeting and financial forecasting: setting parameters, such as debt repayments or machinery upkeep and replacement, allows for more streamlined budgeting. Budgets are monitored throughout the year. It makes long-term planning easier.

Enhance the farms' reputation and credibility: helpful in marketing, raising finance and becoming investor ready if required.

Be an attractive and safe employer: attract and retain appropriately experienced and reliable staff.

Disadvantages

Independence challenged: having to seek alternative opinions and consider other people's recommendations can be disconcerting for people unfamiliar with the process.

Financial investment: there may be a cost involved with establishing a board. The cost of travel for board members, for example, should be covered.

Requires patience: effective advisory boards set policies that seek to reduce the likelihood of decisions made 'on the run'. Therefore, people need to be clear on the process involved and understand that it may be different to what they are used to.

Establishing a board

Establishing an advisory board is not difficult. There is a growing body of supporting documentation, and there are a variety of people willing to help. A good place to start is to think about you, your family members and your business. Will they benefit from the structure, dynamism and accountability that an advisory board can bring about?

Consider and write down some of the key challenges the business may be facing in the medium term. Also, consider the top four or five skill sets that would be most beneficial to the enterprise, over and above those existing within the business.

Who could potentially be an advisory board member is a vital question. Try to put some faces or names to the preferred skill sets identified. Be bold. Picture yourself meeting

those people as a group, and imagine the ideas or specific issues likely to be discussed.

If your intuition tells you that it is likely to be productive, then it is time to consider setting up an advisory board.

There are many advisory boards in action. Identify farms that are using one and speak with them to help decide whether or not to seek external help to create the advisory board. Consult relevant trusted advisers before choosing between external support, or embarking on the 'do-it-yourself' approach to establishing a board.

When it comes time to assemble the external members of the board, and particularly a Chair, remember that "advisory board members should be people you respect as much for their personal qualities as for any technical competence they may offer".¹³

Feasibility studies required

A grain grower wanted the advisory board, of which he was a member, to approve the purchase of two silos. The grower was under pressure from the salesperson who was offering a tempting discount. The formal feasibility study required by the board examined the alternative storage option of using grain bags instead of increased silo capacity and the financial implications. Based on the financial analysis and considering the operational aspects, the board calculated that it was better to purchase one silo rather than two. All business members were involved in this decision and comfortable that the capital purchase was appropriate.

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USEFUL RESOURCES

Farming the business: sowing for your future

www.grdc.com.au/Resources/Publications/2015/01/Farming-the-Business-Manual

Farm decision-making: the interaction of personality, farm business and risk to make more informed decisions

<http://bit.ly/1X1JXSo>

What is a farm advisory board?

<http://bit.ly/1MqsCdz>

Setting up a farm advisory board

<http://bit.ly/1l8ws1R>

The benefits of an advisory board – mentoring for growth

<http://bit.ly/1OTSrXn>

A range of farm business management fact sheets can be downloaded at:

www.grdc.com.au/Resources/Farm-Business-Management

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