

# FARM BUSINESS FACT SHEET

## Applying corporate principles and processes to the family farm

The continued growth in scale and business complexity of family farms has driven interest in improving the quality of governance and management.

Large public corporations are answerable to shareholders and external scrutiny, which requires disciplined documenting, measuring and reporting. There is growing interest in selectively adopting corporate principles to improve family farm communication, decision making and business outcomes.

This Fact Sheet focuses on some key corporate principles and processes that can be adapted by family farm businesses. The practical application is demonstrated in the case study of a family farm that has successfully adopted corporate principles and processes.



A family farming operation will have many satisfying years – including the non-profitable years – if management is approached in a fair but commercial manner.

### CORPORATE PRINCIPLES

To set the scene, the applied corporate principles and processes that are focused on in this Fact Sheet are outlined as follows:

#### Corporate policy and operating procedures

##### CORPORATE POLICY

This is a documented set of broad guidelines laying down the firm's response to known circumstances. It also determines the formulation and implementation of strategy (see [www.businessdictionary.com](http://www.businessdictionary.com)). These policies provide a reference point for management to clarify the direction and preferences of the Board when making significant tactical decisions and investments. Mission and values statements are often at the top of policy, followed by more detailed guidelines of how they will be achieved.

##### OPERATING PROCEDURES

Procedures outline the methods used to action policies, and guide the day-to-day operations of the organisation in line with the policies and direction set by the Board of Directors. These procedures can go down to minute detail; for example, expectations around the conduct of employees and specific safety instructions (see [www.businessdictionary.com](http://www.businessdictionary.com)).

#### Governance and Board

The Australian Institute of Company Directors (AICD) describes governance as: “the framework of rules, systems and process put in place to control and monitor an organisation.

#### Key points

- Family farm businesses are growing in scale and complexity, prompting a rethink of approaches to business management and governance.
- Corporate principles aim to ensure profitability through accountability, transparency and reporting that is relevant to the risks involved.
- The case study farm described in this Fact Sheet has had positive and productive outcomes from adopting management disciplines based on corporate principles.

Effective governance structures allow management of affairs with proper oversight and accountability, create value for shareholders through sound investment and innovation, and provide accountability and control systems relevant to the risks involved” (AICD, 2017, *Guiding principles of good governance*).

These AICD guiding principles include the following in relation to the Board:

- sets and approves the organisation's vision, purpose, strategies and cultural tone;
- should be capable of providing independent oversight and judgement;
- is made up of directors with relevant and diverse skills and expertise; and
- is appropriately informed and has access to accurate, relevant and timely information.

## Monitoring and Reporting

Internal and external reporting is a basic expectation in corporations to enable effective and timely decision-making. A lot of external corporate reporting and disclosure is mandatory and dictated by the Australian Securities Exchange and the Australian Securities and Investment Commission requirements.

Effective internal monitoring and reporting is critical to corporate operations and is the responsibility of the chief executive officer (CEO). The CEO in turn provides timely and relevant high-level reporting to the Board to enable effective and strategic decision-making.

## FAMILY FARM CASE STUDY

### Future Farms partnership

To demonstrate how corporate principles have been successfully adapted to a real family farm business, a case study farm is described below. Only names have been altered.

#### FAMILY TREE

The partners in Future Farms are shown in Figure 1 and operate their own family trusts.

#### BACKGROUND

Future Farms partnership consists of 5500 hectares in the medium-rainfall district of Victoria. Crops grown include wheat, barley, canola, lentils and faba beans. Sheep are bought, grown out and sold over the summer months. The farm is spread over 40 kilometres from east to west.

Issues that have been front and centre for the family business over the past five to 10 years include:

- improving production;
- managing increasing cost of inputs;
- managing consequences of the Millennium Drought;
- management roles and responsibilities; and
- changing grain marketing and price volatility management:

Current issues include:

- the ever-increasing challenge of herbicide resistance and appropriate management techniques;
- climate change and its consequences – what impacts are ahead for the farming system?;
- high land prices – are they really high? What and where will the next investment be?; and
- managing the changing labour requirements over the course of the year.

**FIGURE 1** The partners in Future Farms operate their own family trusts.

	Bill & Grace Mid-60s Discretionary Trust Future Farms partner		Jack (Bill's brother) & Betty Mid-50s Discretionary Trust Future Farms partner	
On-farm Son 1 & wife (David & Anne) Mid-30s Discretionary Trust Future Farms partner	On-farm Son 2 & wife (Brett & Jenny) Late 20s Discretionary Trust Future Farms partner	Off-farm Three offspring	Off-farm Three offspring, one currently very interested in returning to farm	On-farm Jeff – full-time employee Early 40s

## CORPORATE POLICIES AND OPERATING PROCEDURES

### Deed of partnership

The business entity Future Farms is a partnership of individual family discretionary trusts.

The partnership agreement deed describes: the percentage equity split, rental arrangements, partnership valuation, partner duties and obligations, and dispute processes.

The deed is reviewed infrequently, usually when a change in partner status occurs. The business owners' (partners') percentage of the business changes by negotiation. Partners buy and sell their equity in the business based on an agreed valuation methodology.

An associated operational agreement outlines how the partnership will work.

### Operating agreement

This document is recognised by the partnership agreement and contains the agreed operating arrangements for the partnership. These arrangements can be changed by the partners on a resolution of votes cast at a partners meeting.

The operating agreement is an internal business document that is reviewed at least annually. It is designed to assist with day-to-day management of the business.

Key areas documented in the operating agreement include the following:

#### CORE PRINCIPLES

Future Farms operates from a clear and agreed base of business and personal principles as follows:

- the roles, responsibilities, risk and reward for all partners and employees should be transparent and fair;
- roles should be clearly defined, and partners and farm employees are encouraged to move between roles, subject to their ability, aspirations and the business's needs;
- people should be rewarded according to their contribution to the business and, therefore, clear differentiation is made between:
  - business ownership – taking on risk and a share of profit;
  - employment by the business (as a manager or worker) and receipt of a salary; and
  - land ownership and the receipt of rent.

#### DECISION-MAKING

The business's decision making methodology and voting processes are documented. These provide guidance on key or complicated decisions where there may not be complete agreement.

#### FARM BUSINESS MODEL

Owners of the farm land within Future Farms receive a commercial lease rate from the partnership. The rate is set by negotiation and considers market value of the land and lease value.

This entity pays commercial salaries to operators, rent to landlords and profit to entity owners (as illustrated in Figure 2).

The individual partners have an interest in all three sectors, but not in the same proportions. The partners know what their personal/family equity is at any given time. They can easily review their position and the options available to them.

Within this structure further details are documented on the roles and expectations including:

- business owners' (partners') responsibilities – reviewed annually;
- landlord's expectations; and
- the proposed roles of owners in the business.

## VALUES AND RELATIONSHIPS

Future Farms has an agreed upon and documented set of ground rules. These ground rules are important for resolving conflicts and making judgements about what behaviour is expected.

The farm has a clear set of values that are recorded and placed in a visible location in the office. All family members agree that they want to treat and be treated by others in the group openly, honestly, transparently and trustingly. They also want to:

- have fun;
- be appreciated and appreciative;
- be respected and respectful;
- have confidence in others;
- be acknowledged and acknowledge others;
- respect differences, skills, interests of others, opinions;
- provide opportunities to learn, grow and make mistakes;
- be proactive in conflict resolution; and
- have regard and be conscious of the communities in which they operate.

## OPERATING PROCESSES

This section of the operating agreement documents other important information such as:

- work in progress;
- financing entry into the partnership;
- assets and liabilities;
- business entity distributions;
- dividend policy;
- insurance arrangements; and
- retirement planning.

## PROGRESSION PLANNING

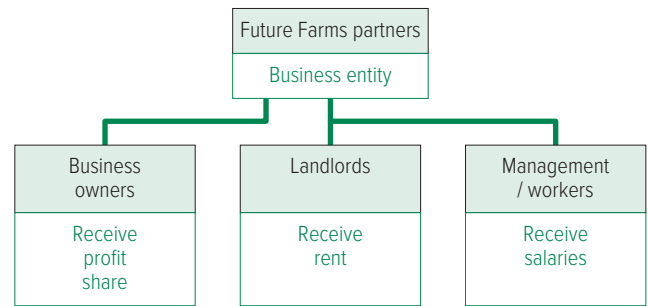
This is where issues regarding the development of the Future Farms partnership are recorded, including:

- needs and aspirations of the current partners and the implications for the business;
- farm business performance objectives; and
- implications of actual farm business performance against objectives and the future progression of Future Farms.

Other operating procedures documented and utilised include:

- job descriptions;
- weekly operational planning meeting agendas and action lists; and
- annual reviews and planning sessions with agronomist, accountant, banking etc.

**FIGURE 2 The operating business model of Future Farms.**



## GOVERNANCE AND BOARD

### Role of the Future Farms Consultative Board

Ten years ago, a Consultative Board was formalised. This comprises all four partner family units and three independent directors with finance, production and strategic management experience. Its charter is to focus on the areas of strategy, finance and governance of the farm business. One of the independent members chairs the board meetings. The focus is to look at business performance, appropriate structures, growth opportunities, partner relationships and objectives.

Examples of outcomes from Consultative Board considerations include:

- a deliberate resolve to focus on investing in cropping land locally, after considering three different regions, resulting in a 260 per cent increase in land equity over the past 10 years;
- a rearrangement of the farm ownership and business structures that gives all participants a clear understanding of their personal financial position within the farm at any time; and
- assessment of alternative business investment options including: the value of on-farm storage versus bulk handler options, owning versus contracting machinery, sheep feed-lotting and other intensive enterprise opportunities.

### Composition of the Consultative Board

Future Farms has found that three independent advisory board members works well. This number has the advantage of keeping the topic of conversation wide and enhances a focus on business performance and opportunities. The risk of a smaller number is that an independent could end up primarily as a family arbitrator. The key success measurement of the board is continual business development. The independent directors are remunerated.

Invitees to the board meetings include the three independent members and all business owners – that is; Bill and Grace, Jack and Betty, David and Anne, Brett and Jenny.

### Consultative board protocols

The board meets for five hours between 8.30am and 1.30pm, four times a year. The agenda typically consists of an operational report that focuses on issues of management and safety, seasonal outlook and grain market report, business finance reports that look at cashflow, profit forecasting and a balance sheet review. The agenda will often include guest speakers that usually give a detailed overview of their business and the issues they encounter. These businesses are usually family based but not always in agriculture. There is always time

**FIGURE 3 An example Future Farms Consultative Board agenda. Note the focus on strategic topics.**

<b>CONSULTATIVE BOARD MEETING AGENDA</b>		
<b>Future Farms office 11 July commencing 8.30 am</b>		
Chair: Independent director		
<b>Agenda</b>	<b>Start</b>	<b>Duration</b>
Confirmation, matters arising from minutes and any further agenda items	8.30	5 min
Action sheet	8.35	15 min
David, Brett, Jenny and Jeff: operational report, season summary, current farm activities, safety, issues arising in the next few months	8.50	30 min
Anne: seasonal & market outlook and resulting potential strategies	9.20	20 min
Bill: Financials 17/18 actuals to budget comparison; balance sheet with entity split	9.40	35 min
<b>Morning Tea</b>	<b>10.15</b>	<b>15 min</b>
David: benchmarking	10.30	60 min
Independent director: financial implications of growth strategies; XYZ share trading system; broker PowerPoint overview	11.30	60 mins
<b>Lunch</b>	<b>12.30</b>	<b>45 mins</b>
Implications of strategic conversation: goal and target timing	1.15	45 mins
<b>Next meeting: 10 October</b>		

set in the agenda for structural and strategic opportunities.

Structural or strategic opportunities are often analysed and presented in a discussion paper prepared by a board member. These discussion papers are circulated to all board members.

Figure 3 shows a typical Consultative Board meeting agenda that demonstrates the focus on strategic topics.

## MONITORING AND REPORTING

Future Farms works hard to closely monitor key business and financial indicators. This includes:

- benchmarking – external comparative analysis and internal enterprise analysis are important for understanding business performance;
- budget versus actual cashflow reporting;
- agronomic performance of paddocks is recorded and analysed via Cloud-based paddock recording software;
- yield modelling and forecasting;
- cost analysis and cost trends;

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- return on invested dollars and balance sheet performance; and
- grain pricing relative to long-term trends.

These analyses are reported to the Consultative Board at the appropriate time to assist in the overseeing of the business, set direction and make key decisions.

## CONCLUSION

The major outcomes of the management regime that Future Farms partnership has adopted are summarised by the partners as follows:

- succession planning – created a clear and non-threatening environment enabling new members to enter the business and others to exit/scale-down;
- expansion – the farm has grown from 3000 to 4700 owned hectares (57 per cent) over the past 10 years;
- owners and staff have identified their skill set, passions and a clear direction for the business;
- benchmarking and formal monitoring of performance; and
- having an open mind towards opportunities that are assessed and analysed as they appear.

## USEFUL RESOURCES

**GRDC Fact Sheet: 'The benefits of separating land assets from the operating business', [www.grdc.com.au/FBM-LandAssetsVsOperatingBusiness](http://www.grdc.com.au/FBM-LandAssetsVsOperatingBusiness)**

**GRDC Fact Sheet: 'Farm advisory boards', [www.grdc.com.au/GRDC-FS-FarmAdvisoryBoards](http://www.grdc.com.au/GRDC-FS-FarmAdvisoryBoards)**

## MORE INFORMATION

**Family Business Australia, [www.fambiz.org.au](http://www.fambiz.org.au)**  
**Australian Institute of Company Directors, [www.aicd.companydirectors.com.au](http://www.aicd.companydirectors.com.au)**

## GRDC RESEARCH CODE

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