

12 ADVISORY BOARDS

Advisory boards bring accountability to farm business performance and structure to decision making, helping a business achieve its goals.

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12 ADVISORY BOARDS

It is challenging for any farming family to have all the necessary skills in the management team, so there is an increasing trend for family farm businesses to be assisted by advisory boards made up of people with particular skills and experience.

KEY POINTS

- Operating a farming business is becoming increasingly complex. Boards can provide business mentorship and improved guidance for decision making.
- A board, being a 'third party', encourages accountability.
- The allocation of high level tasks to advisory boards, such as strategic thinking, tactical reporting and governance, provides objective analysis and business support.
- Carefully weigh up the benefits and costs when considering using an advisory board.

Farming is becoming increasingly complex, requiring greater responsibility to deal with issues such as new technologies for crop and livestock production, Occupational Health and Safety rules (OH&S), volatility in commodity prices, Australian Taxation Office (ATO) reporting, relationships with banks, agronomists and other advisers, and environmental issues. An advisory board can add some of these skills to the family farm business. These boards may take different forms and so can be tailored to meet an individual farm business' needs. However, like any business decision, there needs to be significant benefits to implementing an advisory board for your farm business, as their cost can be substantial.

Types of boards

1. Management boards

Management boards (sometimes referred to as 'Board of Management' or 'Board of Directors') are used quite widely in the corporate business world and by private companies. They are a mandatory governance mechanism and are legally required for any private or listed company (Pty Ltd). As such, the directors of these boards have legal obligations and responsibilities, and if proven negligent in these obligations, can be prosecuted. Given this level of accountability, such governance will not come cheaply.

2. Advisory boards

The good news is that family farming businesses are not required to have boards of management if they are not a registered company and are able to use the less regulated advisory boards. These types of boards are set up for advice only and do not have the same level of legal responsibility.

Table 12.1 compares the features of a management board with an advisory board. The challenge for a farm business is to take the positives from management boards and apply them to an advisory board that suits their own farm business.

A management board, given its legal governance requirements and its expense, is not the preferred option for most farming businesses and is rarely used. The rest of this section therefore focuses on advisory boards as they are of far greater use to farm businesses.

12.1 UNDERSTANDING BOARDS

What is a Board?

A board consists of:

- a group who meet regularly to look at the performance and strategic progress of the business.
- at least one independent member and other owner-operator members.
- a group that can provide good governance to a business. Governance is the process of ensuring the strategic direction, accountability and effectiveness of the business. This can be either a legal requirement as in a management board, or in the form of advice in an advisory capacity.
- a group who can separate themselves from the day-to-day operations and take a bird's-eye-view of the business.
- a group who can debate the difficult issues and come out with a clear direction for the future of the business.
- a group who guides, and is committed to, the development of the business.

12.2 IS AN ADVISORY BOARD RIGHT FOR YOUR FARM BUSINESS?

When considering whether establishing an advisory board is the right approach for your business, both the advantages and disadvantages need to be assessed. Do the potential benefits outweigh the disadvantages, such as the expense of an advisory board?

12.2.1 Advantages and disadvantages of an advisory board

Advantages

Shared decision making – Farming can be a lonely profession and an advisory board will provide more people to share insight, knowledge and wisdom in the sometimes difficult decision making process. With a well-functioning advisory board, the probability of making correct decisions is greatly increased. An advisory board can bring fresh perspectives to decision making, with less emotional influence. This can be particularly helpful in a family farming business.

No legal obligations – As there are no legal requirements for an advisory board, the cost of creating and maintaining an effective advisory board is cheaper than a ‘Board of Management’. This also provides flexibility as the roles of an advisory board only need to be those necessary for the individual farming business.

Broaden skills and expertise – Farming is becoming increasingly complex and requires a greater range of skills. If these skills are not available in the farm’s management team, then the missing skills can be accessed via an advisory board. This builds capacity in the management team and allows the farming business to maximise opportunities when they arise.

Objective advice – A board can offer the farm business owner the opportunity to step back from the often consuming daily tactical and operational management, to focus objectively on more strategic management decisions.

Focus on the strategic planning – An advisory board can help develop the strategic direction of the business and maintain the monitoring and decision making necessary to achieve this direction.

Accountability – Are the business goals being achieved? Having an advisory board can bring structured discipline to the farm’s business operations, and encourage commitment and accountability in all the management team.

Mitigate risk – An advisory board can help mitigate family issues and relationship risks. Input to the strategic direction of the business from people independent of the business can also mitigate risk.

Disadvantages

Relinquish independence – Farmers are used to making decisions relatively independently and relinquishing that responsibility may be difficult. While a farming business is not obligated to accept or enact decisions and recommendations of an advisory board, it would appear to be a wasted resource if an advisory board were created but not used effectively.

Should not be set up in a crisis – There is a tendency to create advisory boards during times of difficulty, such as in response to the stress of a poor season or the threat of bank foreclosure. When stress and risks are abnormally high, it is difficult for an advisory board to be effective as business choices are greatly restricted.

It can be confronting – The management of a farming business can find feedback confronting if the advisory board identifies issues of management performance. Significant management growth and improvement can come from this experience, but it requires management to have good resilience and be open to input from others.

Cost of members’ fees – Although it will be less than the expense of maintaining a management board, there will be a financial cost to having an effective advisory board. These include sitting fees and travel costs associated with reimbursing members for their time and contribution.

David: ‘Edge Management was something we were introduced to about seven years ago. It’s basically an organisation where we come together with people from all over NSW and set up business boards. Each quarter we go through our business, with full disclosure of finances and other personal and social issues as well. For about two hours, you have five other businesses working solely on your business. So it’s all about strategic management, goal setting, and where we want to be in 10 and 20 years’ time, and how we can achieve those goals.’

Nell: ‘I’ve just started going to the Edge meetings with my parents and I find it great. From the point of view of a young person coming into agriculture, I’m sitting at a table full of really experienced, good operators. I learn so much listening to them and making strategic decisions. As succession planning is a component of the Edge meetings, they’re forcing us to start thinking about that.’

David and Nell Mott,
‘Berry Jerry’, NSW

Table 12.1: Differences between management and advisory boards

	Management board	Advisory board
Structure / processes	<ul style="list-style-type: none"> The organisational structure of the business needs to be approved by the board and then implemented by the Chief Executive Officer (CEO). The board should meet regularly to maintain its responsibilities, and follow formal recording and meeting processes. It has to maintain agendas and minutes so that decisions and actions can be recorded. 	<ul style="list-style-type: none"> While it has a similar structure to a management board – with a chairperson to facilitate and formal procedures for conducting meetings - an advisory board is less formal and is more flexible.
Responsibilities and legal requirements	<ul style="list-style-type: none"> A management board (or board of directors) is a legal requirement of any registered company in Australia. There are strict laws guiding (Corporations Act, 2001) the implementation and management of a board's governance, and directors have major responsibilities and legal obligations. They are liable for their actions. Any issues of a legal nature like chemical compliance and occupational and health issues, need to be approved and monitored by the board. Directors are to have the shareholders' interests in any decision making and must have no conflict of interest. 	<ul style="list-style-type: none"> Members of an advisory board have no legal obligation. It has no power to veto, instruct or direct.
Strategic management	<ul style="list-style-type: none"> A management board has a legal requirement to focus on good governance. They provide the strategic management of the business. A board of directors manages, directs and supervises the company, implementing the business vision, mission and goals. They make recommendations and directives for management to follow and are ultimately responsible for the success of the company. Management of the business, on the other hand, is responsible for the tactical and operational management. This delineation of responsibilities helps minimise duplication of effort. However, regular reporting to the board by management on performance provides accountability. 	<ul style="list-style-type: none"> An advisory board can provide good governance in the form of advice to management. While an advisory board can also focus on strategic direction, it can only provide advice and the business can do what it will with such advice. It can be a source of valuable business insight and oversight based on years of collective experience.
Areas of management responsibility	<ul style="list-style-type: none"> Industry and economic trends – Changes in industry, markets and the economy need to be continually monitored by the management board so that any likely impact on the business goals can be managed. Product or business positioning – The business production mix and business positioning in the industry should be approved by the board. Marketing – The strategic direction of the marketing plan should be approved by the board. Financial performance – It is important that all stages of the business cycle, assessment, planning, implementation and evaluation be completed for the business's financial management. Human resources – The board is responsible for its own membership and the hiring and firing of the Chief Executive Officer (CEO). Generally, management in the business is the responsibility of the CEO 	<ul style="list-style-type: none"> An advisory board can provide advice on any of these same areas, but the management team are not required to follow it. While all of these responsibilities may not be needed for an advisory board, it does provide a checklist of roles and responsibilities an advisory board might have if required for the farming business. An advisory board can provide accountability particularly in the financial management of the business. Section 5, How do I measure the financial performance of my farm business, Module 2 covers farm financial management and specifically section 5.4, Whole farm analysis, Module 2 shows a sample financial dashboard which could be used for reporting to a board. NB. This is not for tax accounting, but for business performance, so that progress against goals can be monitored. The farm business owners are responsible for the membership of the advisory board.

Source: P2P Agri P/L

12.2.2 Are you ready to use an advisory board?

In deciding whether you should use an advisory board as part of the strategic management of your farm business, asking yourself questions in the following areas may help clarify your decision:

Be realistic

- What is your vision for the business and how will a board help you to achieve this?
- Can you easily share information about your farm business that portrays your situation clearly?
- Are you open to new ideas and insightful questions?
- Do you enjoy others contributing to your success?
- Are you open to engage in and receive feedback? This can be confronting at times.
- Are you prepared to put time and effort into finding the right people for your board who complement the skills required to advance your farm business? It is important you do due diligence in order to end up with a board that meets your business needs, and is made up of people you trust and work with effectively.
- Are you prepared to commit time and effort to the process of board meetings, reporting, and following up on recommendations? If not, the effectiveness of having a board will be compromised and it will be less likely to result in a good outcome.

Have clear objectives:

- What are you trying to achieve?
- What specific skills will help the business achieve this?
- What skills does your management team currently lack?
- Who will be involved from management? Should it include other family members or people who work in the business?
- What quality of external advice are you looking for?
- What sort of compensation is there for members of your board? This may be payment per meeting, a monthly or quarterly retainer, or some other agreed form of recompense.
- What processes and responsibilities need to be put in place?
- Can you be adaptable to changing needs? For example, over time, you may need to change the type of advice or skills required by the business.

12.3 WHAT MAKES AN EFFECTIVE ADVISORY BOARD?

The creation of an advisory board needs careful consideration of the following factors:

12.3.1 Define expectations

What are you trying to achieve?

Strategic planning development – Determine the objectives of your advisory board. Strategic thinking can be undertaken before a board is formed, but its membership needs to jointly own the strategic direction of the business. This joint ownership can occur more easily if the advisory board is involved in developing the strategic direction and planning.

Have a clear set of values – For an advisory board to survive into the long-term, a number of values need to be adopted such as integrity, confidentiality and trust.

Have clear expectations of members' commitment – Be clear about the time, effort and length of commitment involved for those considering joining your advisory board. Be specific about the areas you require them to commit to.

Have clear, well-communicated objectives – Be well prepared and organised for meetings; distribute an agenda and other information well ahead of meetings to inform members and minimise time needed at meetings.

12.3.2 Choose the right people

Who should be on an Advisory Board?

The creation of an effective advisory board is probably the biggest challenge of having a board. Most farmers' initial reaction is to include their accountant or bank manager, and these people may or may not be the most appropriate. Decisions of membership should start from what are the missing skills that are required and they may not be taxation management, business structures and the management of lending, which are the skills of accountants and bankers.

A key member would be the chairperson. The effectiveness of an advisory board is greatly influenced by the quality of the chairperson. While not essential, it is encouraged that the chairperson be independent of the farm's ownership. Given most farms are family owned it is highly recommended the chairperson is not the lead owner of the business. One of the aims of an advisory board is to encourage all generations involved in the business to effectively contribute, which may not occur if the chairman is also the major owner of the business.

This would also help the chairing of meetings to be as objective and effective as possible, allowing other members of the advisory board to fully participate in discussion rather than having to focus on meeting procedures. The chairperson is responsible for setting the frequency of meetings and meeting length, establishing reporting, and maintaining a meeting environment that encourages free contribution from all members.

Table 12.2: Essential functions of an advisory board

	Essential functions	Actions
Strategic direction and planning	<ul style="list-style-type: none"> The challenge for most farming businesses is to focus on the 'big picture', or strategic planning. Most farm business strengths are their operational and tactical management. An advisory board should provide strong guidance in strategic planning and governance. 	<ul style="list-style-type: none"> The business planning process recommended for any advisory board is discussed in section 4, Where is my farm business heading?, Module 2. This process should also include strategies to manage growth and succession planning, discussed in section 10, Succession planning, Module 3.
Review goals and agreed actions	<ul style="list-style-type: none"> From the strategic planning process, a series of goals should be established. The advisory board should receive management reports monitoring process against these goals. Actions that arise from advisory board meetings should also be recorded and monitored to encourage follow-through. 	<ul style="list-style-type: none"> Developing goals to guide business growth is discussed in section 4.2.3, SMART goals, Module 2.
Risk management	<ul style="list-style-type: none"> Risk is an inevitable part of any business. How it is managed will either greatly enhance or inhibit the success of the business. 	<ul style="list-style-type: none"> A process of identifying and managing risks to your farm business is provided in section 7, Risk management, Module 3.
Financial monitoring	<ul style="list-style-type: none"> A critical part of any advisory board process is to set up financial projections, so that progress can be monitored and management made accountable. While past financial performance can provide context, planning for the future should be the board's focus. 	<ul style="list-style-type: none"> This requires: <ol style="list-style-type: none"> A set of farm management budgets (section 5, How do I measure the financial performance of my business? Module 2), and Key performance indicators (KPI) (section 5.4, Financial Ratios, Module 2).
Compliance	<ul style="list-style-type: none"> Many industries require OH&S standards for employees, chemical use, and production quality control. 	<ul style="list-style-type: none"> The advisory board should maintain an understanding of the business' compliance to these standards.
Capability and capacity of management	<ul style="list-style-type: none"> One of the key roles of an advisory board is to continually monitor and assess the quality of management. An advisory board can create a 'learning forum', where management can be encouraged to improve its performance through training and mentoring. 	<ul style="list-style-type: none"> Two key areas of management that can be addressed through training are: <ol style="list-style-type: none"> Leadership and people management skills: discussed in section 2, Leadership and people management, Module 1. Farm business management skills: while this complete manual addresses this topic, the 'how' of implementing financial management is specifically addressed in section 5, How do I measure the financial performance of my business? Module 2.

Source: P2P Agri P/L

The following are seen to be essential characteristics and skills in advisory board members:

- **Skills and expertise needed by the management team** – The skills that may be needed in an advisory board are strategic thinking (section 4.1.3, Module 2), farm business management thinking and planning (section 5, Module 2), people management (section 2, Module 1), industry expertise, minute taking and meeting procedures.
- **Good communicators** – Members should be good communicators and team players, to participate and not dominate meetings.
- **Problem solving skills** – Members need to be able to develop alternative strategies so that problem solving is effective.
- **Adaptable to changing needs** – Members need to be flexible and able to learn as the economic and natural environments experience change. This means decisions made in the past may not be appropriate for the future.
- **Ethical and trustworthy** – An advisory board will fail if members do not maintain confidentiality of your business.

12.3.3 Have a well organised process

Clear processes, expectations and recording – To have an efficient and effective board, there need to be processes and appropriate recordings so that progress can be measured and managed. For example, any major decisions should be clearly thought through, with briefing reports presented to the board prior to each meeting.

Membership – Members of an advisory board can come from both within and outside the farming ownership and management. However, as a general rule, the more members there are in a board, the more expensive the activity and the more time needed for effective discussion. It should be remembered that only enough membership is needed to ensure competence in the different range of skills needed.

Induction process – When new members are introduced into the board there should be an induction process to help that board member to settle in and contribute effectively as soon as possible.

Roles and responsibilities – Each member needs to clearly understand their roles and responsibilities and these should be documented for future reference.

Time-bounded – Membership should be time-bound so that tenure can be reviewed and is dependent on performance rather than longevity. The activity of ‘hiring slowly and terminating quickly’ is wise when it comes to underperforming boards.

Uneven numbers – If decisions require a vote, then an odd membership number will provide at least a majority of one. However, if the vote is that close, then perhaps the issue has not been discussed enough so that all opinions are clearly understood.

Accountability – Each board member needs to be accountable for their own performance and be willing to participate in annual reviews of their role. This will help to maintain the vitality of the advisory board. One of the biggest responsibilities of an advisory board is to build transparency and accountability in the business. This encourages high management performance.

12.4 ESSENTIAL FUNCTIONS OF AN ADVISORY BOARD

Table 12.2 lists some of the essential roles and functions of an advisory board. However, the set-up and actions of an advisory board are flexible, so can be adjusted as needed to suit management's preferences.

This section is provided as an introduction to help you assess whether using an advisory board should be part of your farm business management strategy. If you are considering an advisory board, explore the options available: set up an advisory board yourself, or use an organisation to run a board for you.

Action points

- List the current skills of your management team.
- Check these skills against your business vision. Does your management team have all the skills and expertise necessary to achieve this vision?
- If not, create a list of the skills you need, and the potential people who could provide these skills.
- Explore the options for setting up and running an advisory board.

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GRDC RESOURCES

Other information relating to the topics covered in Module 3 can be found in the following GRDC Fact Sheets and resources:

Marketing versus selling (P2Pagri P/L, 2014):
<http://www.grdc.com.au/GRDC-FS-MarketingVsSelling>

Strategic risk management (M Krause, 2009):
www.grdc.com.au/GRDC-FS-StrategicRisk

Succession planning (J Wilkinson, 2010):
<http://www.grdc.com.au/GRDC-FS-SuccessionPlanning>

Understanding a bank's approach to farm business (P2Pagri P/L, 2014):
<http://www.grdc.com.au/FBM-BankApproach>

