MANAGING THE TRANSITION FROM THE SINGLE FAMILY FARM TO MULTIPLE PROPERTY OWNERSHIP: PITFALLS AND RECOMMENDATIONS

A dissertation
submitted in partial fulfilment
of the requirements for the Masters of
Professional Studies (Agribusiness)
at Lincoln University

by

James Allen

Lincoln University
2005

Abstract

The structure, size and complexity of managing a farming business in New Zealand is ever increasing. A growing trend is multiple farm property ownership by a single individual or family. This dissertation examined the issues faced by farm owners when making the transition from single property ownership to multiple property ownership. The research was based on a number of interviews of North Island based dairy farmers who have made this transition.

When looking at the key problems encountered by farmers who owned multiple properties these problems can be broadly categorised into four areas: strategic planning, business management, human resource management and personal/lifestyle issues. Such issues included lack of distinction between governance and management, lack of systemisation, and logistical problems when dealing with large numbers of employees. If these issues are not addressed this can lead to high stress levels, poor physical or financial performance, staff conflict, staff turnover, lack of progress, poor decision making, loss of control, and loss of enjoyment of the farming business. Recommendations for those contemplating expansion to other properties have been made, focusing on the four key areas.

Expansion of the farming business by way of purchasing additional properties is not for the faint hearted. It can add considerable stress, debt and workload to an often already busy lifestyle. But if the required degree of thought, planning, effort are put into the expansion process the resulting benefits can be considerable.

Keywords

Farm management; Multiple property ownership; Farm business growth

Acknowledgements

I would like to acknowledge the time, honesty and openness shown by those who were selected as case study participants for this research. Without their willingness and enthusiasm to share ideas this dissertation would not have been possible.

I would also like to acknowledge my supervisor Neil Gow for his salient comments and input on the structure of this dissertation. His input has been valuable.

Table of Contents

List of Figures

List of Tables

1.0 Introduction

The agricultural sector in New Zealand is constantly evolving. The average dairy farm now runs over 300 cows, and is increasing by around ten cows per year. A typical sheep and beef property farm is running 4,000 stock units per person. There are an increasing number of large scale dairy and drystock properties, which require a different set of skills to manage compared to a smaller property. The ownership structure of farms is also changing. Corporate and overseas owners are now commonplace. Additionally there are an increasing number of properties owned by a single family, under the term I loosely use known as the 'family corporate'.

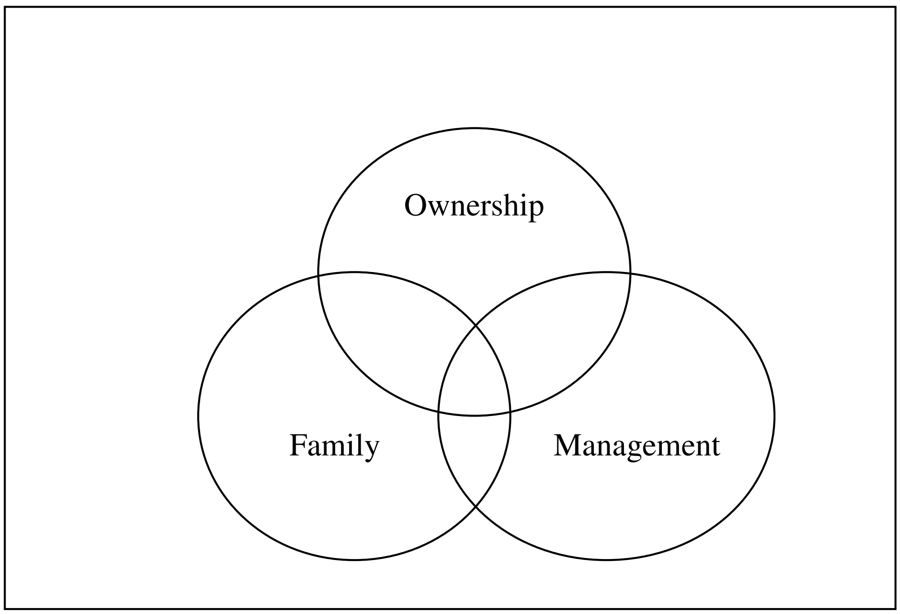
The transition from a traditional family farm to a family corporate which runs multiple properties can be a rocky one. Some families have managed this transition successfully, while in other families it has lead to stress, conflict, and sometimes failure of the business. This dissertation aims to explore these issues. This dissertation is based around a series of interviews with farmers who have progressed to multiple property ownership, using a Grounded Theory research style. Conclusions and recommendations are then based around these interviews.

1.1 Definition of the 'family' farming business

The family farm has long been upheld as the base unit for farming in New Zealand. As the agriculture sector has progressed, the size of the typical farm has increased, but by and large has still been managed a single family unit. Reid (2004) summarised research work into the definition of a family business as to having two main characteristics, "*(1) there must be a strong association with a family, and (2) the family must influence the direction of the business.*" Additionally, a family business may very likely involve intergenerational involvement in the ownership or management of the business.

When analysing the relationships in a family business, Tagiuri & Davis[1] discuss a treble system model, depicted in Figure 1. The model illustrates the structures of family, ownership and management. Some family members may fall into both ownership and management of the business.

Figure 1: Overlap of Family, Ownership, and Management Groups



From: Tagiuri & Davis (1996, p200)

1.2 Definition of the 'family farming corporate'

A corporate is defined as "*forming one body of many individuals"* [2]. For the purpose of this dissertation the term family farming corporate is a loose term used to describe a range of situations where the family unit owns or manages a number of farming properties, or possibly a particularly large farm on its own. This dissertation has focused on the family corporate that owns property in more than one location, as this has a

[1] Tagiuri & Davis (1996), p 200
[2] Oxford Dictionary

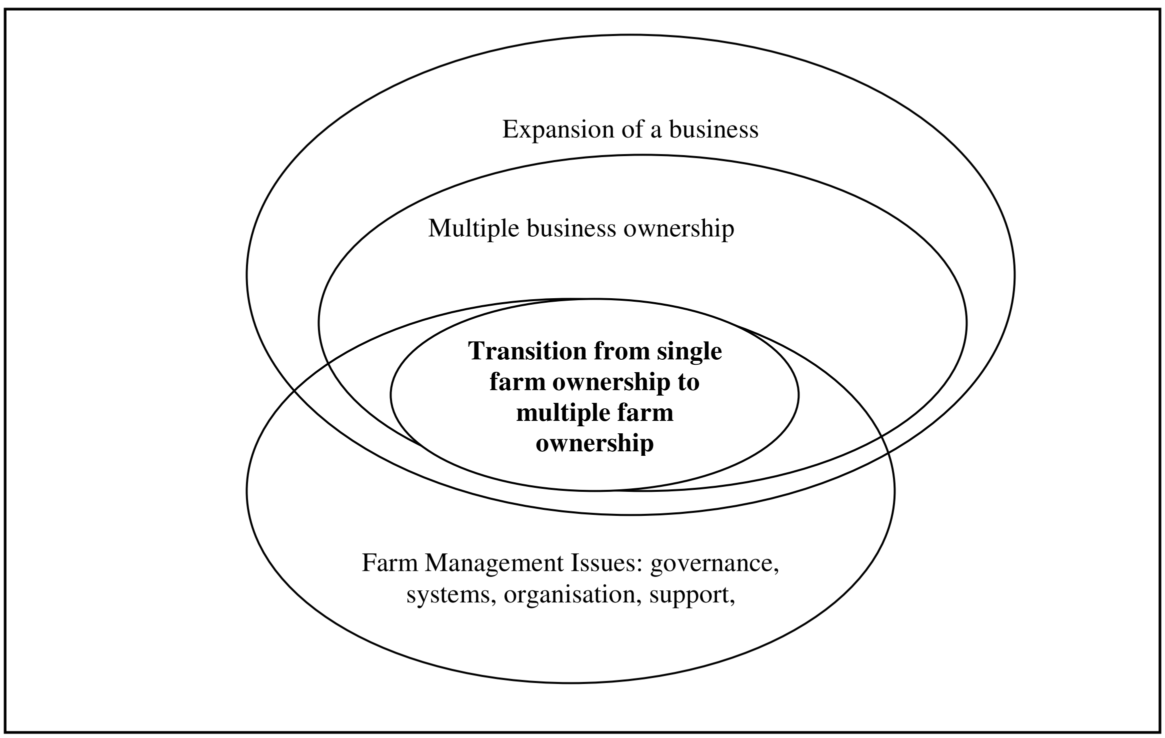
different set of challenges to a large property in a single location. It does not differentiate situations based on the ownership structure (eg, trust, company, partnership), nor the degree of intergenerational involvement in the business.

2.0 Literature Review

2.1 Introduction

Numerous researchers have looked at various issues surrounding the family farming business, but there has been no research found that examines the specific issues this dissertation focuses on. Upon undertaking a literature review for this research, one can view the issue of transition from single to multiple property ownership as a subset or inter-related to other issues as follows:

Figure 2: Literature Review



This organisational chart provides a framework to structure the literature review.

2.2 Business Expansion

Business Expansion – an Economic Perspective

This dissertation is not a theoretical exercise. When examining growth of a firm or business, economic theory is quite different to life in the real world. Penrose (1980) outlines, *"In theory the growth of a firm is nothing more than an increase in the output of given products, and the 'optimum size' of the firm is the lowest point an the average cost curve for its given product; the question what limits the size of a firm is the question what limits the amount it will produce of the given product or products with respect to which the cost and revenue schedules apply that are used to represent the firm."*[3]

Rather than looking at life from an economic theory perspective, this dissertation examines the real-life issues that owners and managers experience when growing their business. Hence this implies that economic conditions necessary for growth are already present.

Penrose discusses the issue of managerial diseconomies. That is, as the size of the firm grows, inefficiencies creep into the business. Penrose also lays a counter-argument that an organisation can grow in such a way that the culture of the leader can be transmitted into the thought processes of subordinates, thus lessening the potential for managerial diseconomies. In reality it is likely that both situations occur. The question then becomes as how to stimulate the latter and minimise the former.

[3] Penrose (1980) p11

Farm Business Expansion

Making the transition from managing one farm to managing multiple properties is a specialised form of business expansion. Lloyds (2001) produced a simple booklet for farmers that discussed key issues farmers should consider when expanding their business. Some key comments from this booklet included[4]:

> *"Raising farm turnover through expansion should draw the gross margin up and away from the overhead cost base of the business and so lead to extra profit. Larger turnover businesses, with more cash coming in, also tend to be more robust.*
>
> *The pitfall to avoid, is that the expansion leads to greater inefficiency and the extra variable and overhead costs simply soak up the entire extra turnover, with the result that no extra profit is generated.*
>
> *With any expansion policy there's a need for a proper business plan. This should include:*
>
> - *Realistic budgets for the options and time scales concerned*
> - *A sensitivity analysis, which shows the likely variation in results*
> - *A risk analysis and contingency plan, which shows what would happen if things went wrong, and what the fallback positions are*
> - *Clearly defined critical success factors*
> - *A timetable of events showing who is responsible for achieving what, and by when*

Rapid Growth

Farm management is merely a sub-set of business management, so it would be remiss not to consider the broader aspects of business expansion. There is a significant amount of literature available which consider business investment decisions, but relatively little literature that specifically focuses on the issues surrounding multiple business ownership.

[4] Lloyds TSB (2001) p9

Hazel & Reid (1979) consider the implications of rapid growth of a business. Not surprisingly, many of the issues raised are equally applicable even when considering modest business growth. Some key considerations of rapid business growth raised by Hazel & Reid included:

- Why grow at all? The business owner needs to be absolutely certain that they want to grow the business. The culture of the business is likely to change; risk levels may increase; and there may be a negative impact on the owner's enjoyment of life.
- Market growth – can the market sustain an increased supply of your product?
- Financial risks of a rapid growth strategy
- Administration limitations when growing the business
- Organisational limitations
- Increased marketplace competition,
- Personal ability of the owner/manager to effectively manage a larger business, and their level of enjoyment when doing so
- Soul of the company – the bigger the company the less influence the owner has on its soul/culture
- Antipathy (amongst staff) toward change
- New levels of authority, delegation
- New social responsibilities eg to the community

The issue of financial risk during a growth phase can certainly be a major issue. Risk can be caused by high debt loading, under estimation of expenditure or over-estimation of income, or simply due to greater exposure to changes in commodity prices.

The idea of creating and retaining a soul/culture of a business as it expands is an interesting one. What can a farm owner do to ensure his/her business culture is retained as they spread their energies over multiple properties in multiple locations?

2.3 Farm Management Related Issues

2.3.1 The "Family" Farm

Farming in New Zealand has traditionally been centred around the family farm - a single property of (mostly) economic size, run by a husband and wife couple. Their sons/daughters have often become involved in the farming business, leading to succession of the farm to the next generation. The next couple of sections explore some issues around the family farm, as the idiosyncrasies of this unit need to be understood if we are to fully understand farming in New Zealand.

<u>Succession</u>

Succession of the family farming business is an important issue, and many researchers have focused on this. While succession is touched upon in this dissertation, it is certainly not the main focus. This dissertation is more interested in examining how a farmer manages his or her operation as it grows, rather than how it is passed on to the next generation.

Keating & Little (1994) focused on how older farmers retire from business, and how farms are handed on from one generation to the next. Some insights can be made when looking at the intra-family relationships, which can also be a factor when looking at multiple farm ownership. Keating & Little state, *".. families with high levels of cohesion were best able to deal with the stress associated with transfer."*[5] As will be discussed in this dissertation, stress (of the farm owner) is a common issue when dealing with multiple property ownership.

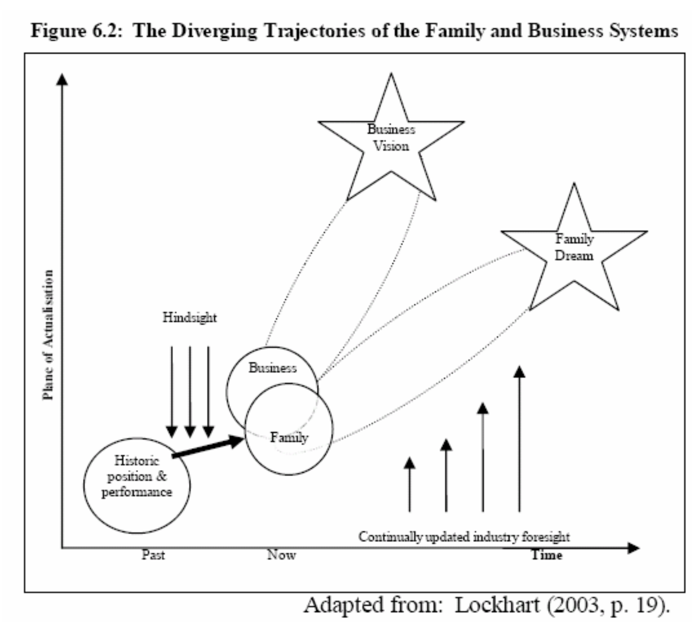
[5] Keating & Little (1994), Summary, p2

Exemplary Performance in NZ Farming Businesses across Generations

Reid (2004) explores the key issues around governance that lead to exemplary performance in New Zealand family farming businesses. Specifically Reid looks at how some family farming businesses thrive across generations. The importance of having a common vision or dream amongst the family is a central theme, as is the importance of ensuring interaction and succession of the family business from an early age.

Reid's research is thorough and makes for compelling reading. However one recognised drawback of this research is that by its nature the research has only focused on exemplary, successful family businesses. Ideas can also be gleaned from looking at family businesses that have not necessarily been successful. What drawbacks did the family face when expanding the size of the business? In some instances, what caused these family businesses to retract the scale of their operation? Reid touched on one possible aspect of failure, which is when the family dream diverges from the business's strategic vision: when this occurs, "*the business will either (1) cease to be a family business, or (2) fail.*"[6]

Figure 3: Reid (2004) Diverging Trajectories of the Family and Business Systems



---

[6] Reid (2004), p81

Attributes of the Family Firm

Tagiuri & Davis (1996) stated that *"Most firms in the United States are family businesses"*[7], and subsequently explored bivalent attributes of the family firm, ie both positive and negative potential of that attribute to exhibit itself in the firm. The attributes are summarised in the following table, taken directly from Tagiuri and Davis.

Figure 4: Bivalent Attributes of the Family Firm

DISADVANTAGES (-)	ATTRIBUTE	ADVANTAGES (+)
Norm confusion & anxiety. Family business & ownership issues can get mixed up. Lack of business objectivity.	Simultaneous Roles	Heightened family & company loyalty. Quick & effective decision making.
A stifling sense of being overwatched. Resentment toward family & business.	Shared Identity	Heightened family & company loyalty. A strong sense of mission. More objective business decisions.
Family members can point out weaknesses. Early disappointments can reduce trust in work interactions.	Lifelong Common History	Relatives can draw out relatives strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.
Lack of objectivity in communication. Resentment and guilt can complicate work interactions. Covert hostility can appear.	Emotional Involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust.
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.	Private Language	Allows for more efficient communication with greater privacy.
Can lead relatives to feel overwatched and trapped.	Mutual Awareness and Privacy	Improved communication and business decisions that support the business, owners and family.
Fierce rivalries can develop between relatives.	Meaning of the Family Company	Company symbolism can develop a strong sense of mission for employees.

7 Tagiuri & Davis (1996), p199

As Tagiuri & Davis state in their conclusion, "*the same organisational features of these firms account for both their strengths and their weaknesses. The challenge is …to maximise their positive and minimise their negative consequences.*"[8]

It is important to keep the above points in mind when looking at the expansion of the family farming business, because in some instances it is family members who will be managing the expansion.

2.3.2 Farm Management Decisions for Growth and Survival

To grow the farming business appropriate decisions must be made. Madden (1996) analysed the major farm management decisions for business growth and survival. Key characteristics included:

- Farm business must meet owners goals
- To survive the business must be profitable and liquid
- Appropriate levels of production and technology usage
- Appropriate business size and structure.
- An ability to service debt and meet cash costs in most years
- Maintaining sufficient reserves to provide for unexpected events and take advantage of opportunities.
- Ability to make prudent investment decisions, allowing the business to grow over time

Common issues identified as reasons for financial difficulty (and hence often) business failure included: inappropriate capital investment; poor debt management; lack of economies of size; poor financial control.

[8] Tagiuri & Davis (1996), p206

In a similar theme Boehlje (1993)[9] identified twelve concepts relevant to the survival of most farming businesses:

1. Management, including planning, implementation and control in the areas of production, marketing and finance
2. Low cost commodity production
3. Spreading fixed costs over more output
4. The importance of profit margins as distinct from commodity prices
5. Obtaining the best combination of price and service for inputs
6. Developing a marketing plan to maximise returns
7. Strategic planning and the use of scenarios and contingency plans
8. Risk assessment and management
9. Capital structure and leverage levels
10. Control and measurement of performance
11. Negotiation and relationships with business partners employees and family members
12. Creativity and innovation in terms of new approaches, products, technologies, ideas and organisation.

Although this research is more focused on the expansion of the farming business rather than merely surviving, the fundamentals of a good business must be in place before expansion can even be considered.

[9] Sourced from Madden (1996), p19

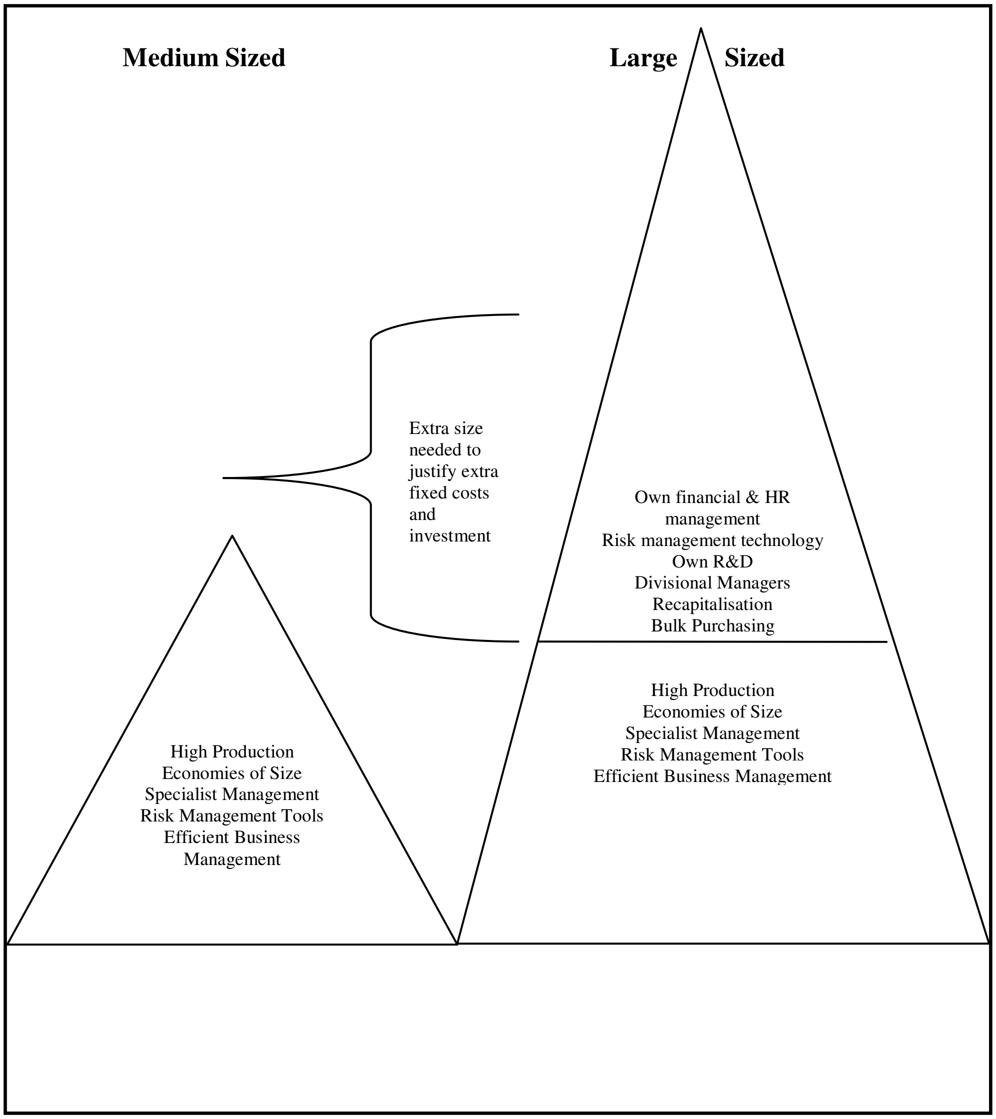
2.3.3 Managing Large Farm Businesses

Jenkin (2000) completed a thesis which examined the issues surrounding large farm businesses (based in Australia). Jenkin highlighted that large farm businesses have both advantages and disadvantages when compared to their more traditional smaller counterparts. Disadvantages included:

- High establishment costs
- Targeting by groups: environmental groups, tax office
- Workload for corporations and listing
- High risk can mean higher losses: potential for large scale failure
- Need for proactive management
- Public structures means high exposure to possible take-over bid
- Potential loss of core farm culture with large scale development
- Burden on top management
- Decision making: Many top management involved in decision making
- Rushing of development/over-capitalisation of developments
- Expansion may lead to spreading beyond core competencies and uniqueness
- Expansion may call for area diversification – hard for top management

The following figure from Jenkin illustrates some of the potential advantages of operating a large faming business.

Figure 5 Advantages of Large Agricultural Businesses



Jenkin states, *"It is highly likely that medium to large farming operations can earn competitive rates of return to total and own capital after tax that over a run of years, can be as good as or better than five to ten percent per annum. This can only be achieved by farmers who are the masters of technology, on farms which are not too highly geared, are of sufficient scale to achieve sufficiently low overhead cost per unit of output, and are in relatively 'safe' production areas. The current small to medium nature of many businesses in agriculture means there are still gains to be made for reinvestment and large investment."*[10]

---

[10] Jenkin (2000), p129

2.4 Literature Review: Summary

As outlined in the introduction of this literature review, the issue of managing the transition from owning one farm to multiple farms is merely a subset of the issue of growth of a business. The literature review in this area has highlighted a number of areas that need to be explored in this dissertation. Some key themes that kept arising during the review included:

- Why grow at all?
- Administration limitations when growing the business
- Organisational limitations
- Personal ability of the owner/manager to effectively manage a larger business, and their level of enjoyment when doing so;
- Antipathy (amongst staff) toward change; new levels of authority; delegation;
- Managerial diseconomies and inefficiencies
- Ability to capture economies of scale
- Importance of workplace culture, ability to retain this with growth
- Financial pressures during growth
- Financial management and organisation, risk management
- The importance of strategic planning
- Control and measurement of performance
- Negotiation and relationships with business partners employees and family members
- The role of family during growth – an advantage, disadvantage, or both?

The above issues have been discussed in a theoretical context, and researched in other areas of business. There was no research found that explored the issues of growth in the agricultural sector, and in particular growth over multiple properties in multiple locations. This makes this research especially interesting and exciting.

3.0 Research Methodology

3.1 Introduction

To reiterate, the aim of this dissertation is as follows:

To develop a guideline to assist a farming family when making the transition from single property ownership to multiple property ownership.

This aim will be achieved by undertaking the following objectives:

1. To define the issues that arise when a family moves from single property ownership to multiple property ownership.
2. To explore how various families managed (or did not manage) these issues.
3. To use the findings from objectives one and two to develop a guideline to assist families in the future when making this transition.

3.2 Research Methodology

It was initially proposed that the research methodology for this dissertation was to use an in-depth case study approach, using three or four case study participants. Yin (2003) outlines four design qualities that are essential in good case study design: construct validity, internal validity, external validity, and reliability. To obtain good construct validity it was felt that at least three case studies would be required. The type of case study is exploratory, rather than descriptive or explanatory.

After working through the issues surrounding this dissertation with the supervisor it was agreed to increase the number of participants in the study, but reduce the amount of detail required from each participant. Hence the case study was reduced to a 2 hour interview process for each participant. It was agreed to aim for 10-20 participants.

3.2.1 Case Study Process

The case studies were based on a grounded theory approach, as outlined by Glasser & Strauss (1967). That is, the approach was an emergent theory rather than hypothesis testing. Grounded theory aims to generate theory rather than verifying it. *"While verifying is the researcher's principal and vital task for existing theories, we suggest that his main goal in developing new theories is their purposeful systematic generation from the data of social research"*[11]. Verification may form part of a subsequent study. According to Strauss & Corbin[12], '*its systematic techniques and procedures of analysis enable the researcher to develop a substantive theory that meets criteria for doing 'good science': significance, theory-observation compatibility, generalisability, reproducibility, precision, rigour and verification*'.

3.2.2 Interview Process

Case-study participants were interviewed for approximately two hours each. Typically this included both parties if the business was owned by a husband and wife partnership. To initiate the discussions the participants were asked a series of general questions to establish the history and current situation of their business. The participants were then asked a series of open questions in order to stimulate discussion. A copy of the questions has been included in the appendix.

[11] Glaser & Strauss (1967). p28
[12] Corbin & Strauss (1990) p31

3.2.3 Selection of case study participants

Interview participants were selected using local contacts and knowledge in the Waikato and Bay of Plenty regions. To ensure consistency across participants, those selected were all dairy farmers.

To be suitable for a case study participant, the following attributes were necessary:

- To have progressed from owning and managing a single farm, to owning two or more farms in separate locations
- To be located within the Waikato or Bay of Plenty regions (to ensure consistency and for ease of management)
- To be dairy farmers (to assist with sample consistency)
- To be willing participants in the case study process.

The sample of participants is best categorised as a purposive sample rather than theoretical case sampling as used in pure Grounded Theory research. This is due to resource limitations. It would not have been possible to conduct a large number of interviews and slowly build the theories. Rather, the approach was to utilise farmers who have already made the transition to multiple property ownership and already have a good grasp of the issues at hand.

Using grounded theory principles, not all of the case study participants were selected at the start of the research. Rather, data has been collected, coded and analysed before decisions were made on the final group of case study participants.

With regard to the number of case study participants, Glaser & Strauss's theory of theoretical saturation was applied[13]. That is, within reason, case studies continued until *"no additional data are being found whereby the sociologist can develop properties of the category".* In this case saturation was being found after about six case studies. To ensure good verification of data, additional case studies took place.

[13] Glaser & Strauss (1967), p 61

3.2.4 Data Collection & Coding

Data was collected using face-to-face semi-structured interviews. The interviews were typically 1½-2 hours in length. The researcher took hand written notes of the interviews. These notes were then summarised and dictated for further reference.

Although the format of each interview was the same, additional questions were added to the interview during the course of the research, as theories emerged.

To assist with coding and analysis of the data collected, a spreadsheet was developed. Key facts and emerging themes were placed at the top of columns in the spreadsheet, with participant codes placed on separate rows. This allowed for easy comparison and analysis of the key issues.

3.2.5 Strengths and limitations of methodology

Case study research is not designed to be quantitative. This dissertation does not provide statistical probabilities on what will (or will not) assist a farmer during the transition to multiple property ownership. Rather it is providing a framework for farmers and rural professionals to use when looking at the issues surrounding multiple property ownership.

The research participants were all dairy farmers who were located in the Waikato or Bay of Plenty regions. Hence the research results may not necessarily be replicable in other regions or other sectors of agriculture. In particular, sheep and beef farmers could well experience supply and demand problems or marketing problems when expanding, which are issues that are unlikely to be experienced by a dairy farmer.

Within the geographic and sector parameters, participants were contacted and selected based on the researcher's knowledge of local contacts. This may inherently create some degree of selection bias. The impact of this bias is difficult to quantify within the realms of this dissertation.

3.2.6 Ethical Considerations

The key ethical issue for consideration is the security of the data provided by the participants, and the confidence that this information will not be misused. All interviewees were assured that their information would remain confidential. Any reference to an individual interview in this dissertation is via a number code. The only person who can link the number to the individual is the researcher.

4.0 Interviews

4.1 Interview Summaries

As outlined in section three the research methodology was based around a series of interviews using a ground theory approach. Results were then coded on to a spreadsheet. This section provides an insight to each of these interviews. Although some specific questions were asked at each interview, the nature of grounded theory research meant that each interview followed a slightly different path. This is reflected in the resulting notes for each interview.

Interview # 1: S & D

April 2005

Overview

S & D followed the traditional path of farm management to 50:50 sharemilking, and then finally purchasing their first farm. Currently they 50:50 sharemilkers on a 600 cow farm, lower order sharemilkers on a 200 cow farm, and owners of two 200-cow properties. All properties are within 30 minutes drive of each other.

Issues Arising from multiple property ownership

- Big issue – having enough equity. Farming generally has the income to service a loan, it is more of an issue to find the necessary security. When S & D first started borrowing money to begin their 50:50 sharemilking career, the total loan offer from the bank was only $800 per cow. They had to rely on a family guarantee (backed by land security) to secure the finance required.

- Getting used to managing staff/managing a team. They had to adjust their skill level. This was done by reading, and attending some courses.
- Making the adjustment from being totally ‘hands on’ to hands off
- Learning to accept that staff won’t do the same job as you. S has had to accept poorer performance in order to achieve greater growth as a whole.
- Motivating staff and articulating their vision to staff is a big issue.
- S gained staff management skills through working in a corporate environment (before starting his farming career). S would not have gained the same skill level if he went straight into farming
- Learning sales & negotiation skills has been an important asset for growing their business – learning how to understand the other party’s needs and wants
- Administration skills had to be improved as scale of operation grew. S & D use Cash Manager, and do their own inputting.
- S is not good at handling paper. He has gone to using a computer to help store and process information. S & D use a computer for finances, feed planning, communication, livestock recording, and the internet (sourcing information).
- Time management skills have become very important. S believes he needs to become better at prioritising.
- Creation of a team culture has become important
- Economies of scale – have employed a full time maintenance person who works amongst all properties.
- Strategic planning has been informal, there is no written plan. But they are always discussing opportunities. They look at opportunities outside farming, but have always invested in the farming business.
- Looking to involve staff in strategic decision making in the future
- S & D are using outside expertise a bit more, eg vet used to train staff in animal health issues

Interview # 2: C

May 2005

Overview

C's family have a long history of dairy farming in their current location. C's parents gradually grew the farming business into a 500 cow farm (plus runoff) by the early nineties. After completing an agricultural course at Massey C returned home and became heavily involved in the running of the farming business. Currently the C's own seven dairy farms and milk approximately 2,200 cows.

The majority of the farms are managed by Lower Order Sharemilkers (LOSM). The farms are all within a tight geographic location, within 15 minutes drive of one another.

Key Points

- The C's like to get out and develop properties. Expanding the size of the operation has meant there are more distractions to this (eg paperwork, negotiations, labour management)
- Comment: *"The most successful operators are those who do their own cultivation work/fert spreading etc."*
- Staff management is a major issue. C has minimised this through using grass based/ low cost (simple) systems. Also – use mostly LOSM, which minimises staff hassles. Also, expansion has been slow, so have had time to adjust to managing staff.
- Governance – kept simple. No written plans etc, but an unwritten plan on expansion – focus on buying good properties nearby existing farms. This makes it easier to supervise performance of various properties. No separation between governance and CEO.
- The whole system works because C is out on all of the properties regularly (hands on), and is able to pick up any problems early, systems are kept simple, LOSM are used, and all the properties are centrally located.
- He viewed the business as a very long term affair – there was a real emphasis on sustainability (financial, personal and to a lesser extent environmental).

Interview # 3: T & P

Key Points

Brief History

T & P commenced their dairy farming career by managing the family farm of around 250 cows. T and P subsequently went 50/50 sharemilking on the same property, and eventually purchased this property in their own right. This was followed by the purchase of neighbouring land to expand this operation to 380 cows. In 2002 T and P purchased a second 300 dairy farm approximately 15 minutes drive from the original farm. This property has since been sold as of June 2005 as the result of re-examining the business and strategic plan for T and P. The focus now is for them to purchase a larger dairy unit in a more desirable location.

Issues faced when farming two properties

- One of the key issues faced was a change in mind-set as a consequence of not being able to manage two properties in different locations on a totally hands-on basis. There was a need to adjust expectations and trust in others, with a move from being totally hands-on to being hands-off farming. This involves losing some of the control of the management of the property. There is also a mind-set change to adjust to that on the family farm if things go wrong and staff leave, you can handle things on your own with the help of family. With a property in a second location there is not the opportunity to do this and so you must learn to manage the farm at a distance.

- Performance of the existing unit and the new unit can suffer, particularly if the managers do not have any ownership of the results, eg lower order sharemilkers.

- When purchasing a second property it is easy to let emotions or ego run away with you. This results in undertaking limited due diligence. Additionally you will not know the district of the new farm as well as your own which can lead to unrealistic expectations.

- The magnification of paperwork and administration is something that is not truly comprehended. This was compounded by the lack of good systems and policies. *"We didn't have the systems and plans in place to underpin our visions."*

- With multiple properties there were not necessarily any economies of scale with regard to labour. The configuration of labour on the various farms can be a real issue.

- There were some economies of scale with regard to fixed costs, eg administration.

- There was some adjustment required by existing staff when the second property was purchased. The staff member had been a long serving staff member, and had to adjust to new members being involved in the farming business, and the fact that he was not superior to these new members. This created some issues with regard to having clear lines of control and reporting on various issues. Existing staff may feel threatened by new staff.

- Governance issues. There was a lack of systems internally (and also with the accountants) to provide meaningful and timely reporting information that allowed analysis and comparison of performance of individual units. Linked in with this is the likelihood that the existing farm may be supporting the new farm without the owners or governance being aware of this.

- How much is enough? This is a vital question that must be thought about. In this case this question was answered by developing a comprehensive strategic plan.

- HR skills are absolutely vital. If the owner does not have these skills it is critical that they recognise this and either try to improve their skills or outsource these skills. If this issue is not resolved satisfactorily there will be stress placed on the business and a high likelihood that the second property will be sold.

- Decision making has become more ad-hoc as life has become busier. This is certainly a negative.

- As a result of buying a farm that is not connected to the home property this forces you to become more hands-off (more so than just expanding the home property).

- Some additional costs tend to creep into the business because you tend to buy new products rather than making do or patching up existing equipment.

- There is certainly more stress on people with more farms, having a negative impact on lifestyle. This should not be under estimated.

Interview # 4: M & D

History

M and D started sharemilking on the home property in 1993, running 330 cows. After purchasing 20 hectares of neighbouring land in their own right and leasing 50 hectares of neighbouring land they gradually built cow numbers up to 710. There is now a mixture of a 50/50 sharemilking agreement, but also paying some of the land owners costs.

In 1996 M and D obtained a second sharemilking job, on an 80 hectare farm running 255 cows. A lower order sharemilker was employed on this property, although a manager is now employed. Production on this property has gone from 73,000 to 90,000 kg MS.

In June 2000 M and D took on a third sharemilking job for three years until this farm was sold. This was 350 cows, utilising a farm manager.

In 2001 M and D purchased an 84 hectare dairy farm across the road from the existing home property. There was also a 29 hectare runoff attached to the property which was also purchased. The farm was then milking 320 cows utilising the runoff as milking land. In 2002 they bought 50 hectares from the neighbour and leased a further 38 hectares, bringing the total farm size on this property to 203 hectares.

In February 2005 M and D become majority shareholders in an equity partnership on a nearby property. This farm is producing 205,000 to 220,000 kgms and they are two thirds owners. The manager is the remaining one third equity partner.

In summary, current operations are sharemilking 700 cows (home farm), owners of a 200 hectare farm, sharemilking 250 cows, and equity partners on another farm.

Issues Encountered When Moving to Multiple Property Ownership or Management

Staff

- M and D have become very focused on good staff management in the last two to three years. Increased experience in staff management has been very useful. Positive reinforcement and staff appraisals are essential parts of their staff management process.

- M is now relatively hands off. He milks in the morning but very rarely in the afternoons. He finds attending a milking is useful to watch staff dynamics. Staff dynamics and interaction are very important to smooth running and this is a key focus of theirs when employing staff. Staff employment decisions are made on gut feel rather than utilising any personality indicators.

Entities

All of the properties owned are in a Trust. The farms are managed by a company structure.

Managers versus Contract Milkers

In the past M and D have utilised lower order sharemilkers, although they have more recently moved to managers. However to eliminate hassles regarding time off etc they are now considering contract milkers.

Financial Management

M enters the financial transactions into CashManager. Originally they were separating transactions for each farm. However they were finding that they were not using this information and it was taking a lot of time. Now transactions are entered on a business basis only rather than distinguishing between properties. M and D do all the ordering of supplies. Managers are required to fax them an order sheet every Sunday night.

Machinery

Because the farms are very close to each other they have been able to cut down on machinery expenditure. However this can cause some problems when trying to share machinery between farms. Conversely, they have recently been able to harness some efficiencies of scale by employing a full time tractor driver.

Locality of properties

All properties are very close to each other. This appears to have been a conscious decision and is an emerging trend amongst the case studies interviewed. Apart from the very large operators, most farm expansion appears to be on properties within 15 minutes drive of each other. This is because farmers know the local area best, they are trying to minimise travelling distances, or are afraid to expand beyond their immediate geographical location.

Administration

M and D are very good with administration and undertake all administrative tasks themselves. As farm expansion has occurred systems have needed to be put in place, eg the WageManager section of CashManager has proven very useful. M and D admit they are still lacking some systems which could capture some efficiencies of scale, eg an operations plan for each farm.

Farm Suppliers

It appears there is an issue that providers of farm supplies are not particularly well geared to handle owners with multiple properties, eg the fertiliser supplier is very poor at accurately recording where each order of fertiliser should be coded to (ie which farm). Also the local supplier of farm merchandise does not have good systems for coding supplies to the right property.

Equity Partnerships

M and D admitted that they are reaching a size where full hands-on management across all properties is becoming difficult. With the recent equity partnership purchase they have found the benefits of having an equity manager very apparent. They only visit this farm every one to two months, and the equity manager is fully responsible for performance of this property. It also appears that by utilising an equity partnership arrangement there is a better quality of manager. The key consideration for equity partnerships are the ultimate goals for each party.

Communication

Good communication is absolutely essential for the smooth running of the properties. M always makes himself available via the phone at any time of day. However they admit that if expansion was to continue, this would need to change.

Lifestyle

M and D have been very conscious of retaining a lifestyle that they desire, eg they have four children and make themselves available from 3 pm to 6 pm each day to enjoy activities with their children. This is distinct from some other case studies where as farm properties have expanded, the lifestyle of the farm owner has declined.

Economies of Scale

There are some economies of scale apparent in this business, eg bulk purchasing and specialised management (tractor driver).

Planning

There is a need to spend more time looking at strategic planning as they are becoming focused only on day to day issues.

Governance versus Management

M and D are still very involved in management. There needs to be some clear distinction as to when too much management control of the farms is starting to impede progress. Eg the managers of the property being held back, or is M becoming too busy to make good management decisions and things are getting missed?

The recent equity partnership purchase is an example of governance versus management input. This appears to be working well and is a likely indicator as to future expansion.

Future Issues

M and D admit that they need to improve on staff management skills and staff structures. Time management and systemisation are key issues that need attention. The equity partnerships are seen as a viable option for the future.

Summary

Key issues for this case study include: lack of systems for farm suppliers to cope with multiple property ownership; good communication skills and administration skills are essential for good development; staff management skills are critical; lifestyle is not being compromised; equity partnerships provide a good distinction between governance and management of a property.

Interview # 5: P & M

Overview

P & M started their dairying career by progressing through the traditional path of management, sharemilking and finally farm ownership. Their first farm was purchased in 1995. The farm was approximately 70 hectares effective, running around 200 cows.

In 2002 P & M purchased a second dairy farm. This farm was approximately 50 hectares, with a 20 hectare neighbouring lease, running approximately 200 cows. This farm was a five minute drive from the original property.

The second farm was sold in June 2005. They are now running only one unit. They have subsequently invested in residential rental properties and a business in town

Key Points

- Reasons for selling the second property included:
    - Ability to realise capital gain
    - Reduce debt levels, improve cashflow
    - Eliminate the need for staff.
    - More free time
    - Changing family values

What were the main issues you faced when moving from owning one property to two?

- Employing permanent and relief staff
- Purchasing stock, machinery etc
- Distance between farms
- Developing farm to my requirements eg paddock sizes, feed pad, tracks, water supply and cowshed
- Financial burdens

What new skills had to be developed?

- Staff Management
- Farm and cowshed development
- How to run a second property eg, pasture management
- Better financial Budgeting

What were the effects on lifestyle when running two properties?

- Time management had to be improved
- A lot more stress
- Family missed out on things due to farming having priority and taking longer to do
- Financial pressures

In your words, why have you gone back to one property, and what other comments would you make about this decision?

- Staff management problems
- Better family time
- Got offered very good money for farm
- Decided not to go bigger
- Could have similar financial growth in other investments for less stress
- Having a better lifestyle
- M has opportunity to buy a business of her choice
- I have no regrets about buying or selling the farm and think it was a good move as we are now in a better financial position

Interview #6: S & T

July 2005

History of S & T

- 1987 first sharemilking job, North Waikato, 270 cows

- 1990 took on a second sharemilking job, North Waikato, 240 cows

- 1992 purchased first dairy farm in Bay of Plenty, 50,000 kgms. Put a 50/50 sharemilker on this farm.

- 1994 purchased one of the farms they were sharemilking. Sold BoP dairy farm. Retained a second sharemilking job.

- 1998 gave up the sharemilking job, put a contract milker on the farm they own. Shifted to a 600 cow 50/50 sharemilking job in the central Waikato.

- 1999 bought a 240 cow farm, central Waikato. Employed a contract milker on this property.

- 2001 ended the 600 cow sharemilking job. Bought an 81 hectare farm also in central Waikato. At this time they had wages managers on both properties in the central Waikato, plus a contract milker on the North Waikato farm.

- 2004 purchased a fourth farm, central Waikato, 450 cows, 128 hectares, Employed a contract milker.

Current situation

One farm, North Waikato

Three farms, Central Waikato

Additionally they have just purchased a dry stock property in the Bay of Plenty.

Issues faced when expanding to multiple properties

<u>Staff</u>

The workload when employing staff on wages has become unsustainable. Now contract milkers are employed on most properties.

<u>Systemisation</u>

It is critical that all contract milkers and staff follow a strict system of pasture management and animal management. Every Monday morning the entire farm is walked with a plate meter to provide pasture growth information. This is faxed through to S every Monday. Additionally staff are now faxing through a monthly report.

S spends a lot of time planning with staff and invests a time here. He has also helped staff to progress by investing in cows on one of the properties.

The system in place is targeting 1250 kgms per hectare with no autumn maize or other supplement. The stocking rate is 3.6 to 4.5 cows per hectare, aiming for 1600 to 1700 kg live-weight per hectare. Annual ryegrasses are used and 220 kg Nitrogen per hectare is used.

S has the ability to switch cows between farms if needed, but with contract milkers employed he needs to be careful with this.

The key to the systems is keeping it simple so that staff need only to focus on pasture management and animal management. The whole herd is dry cow therapy treated. Urea is applied by truck. There is no topping due to the high stocking rate. There is no cropping and silage harvesting is undertaken by contractors.

S commented they have been forced into developing solid systems as the farming units expanded. This has taken away some of the decision making from staff, but is achieving results.

There is a focus on team building, and staff from all the properties get together on a regular basis to develop the team culture.

There is an 8 week calving spread. There are no inductions and no CIDRs, and a 3% empty rate.

Technology

S is an avid user of technology such as Rising Plate meters and computer spread-sheets. Frustratingly, the plate meter is not set up for downloading automatically. Concept CashManager is used, but the farms are not separated as enterprises. Because of the high debt loading on the farms S is not at the stage where he wants to relinquish any financial control.

Locations

S was questioned as to why the farms are so close in location. He likes the quality of the land but also sees real advantages in them being so close together and the fact that he can keep an easy eye on progress.

S had not had any issues in moving from hands-on to hands-off. Staff management skills have improved as time has gone by.

Service providers are not well equipped to handle one farm owner with multiple properties. In particular LIC is very poorly set up for this.

Lifestyle

Initially as the farms were expanding lifestyle was compromised to some extent, but S & T are now in a position where they have a good lifestyle and all their goals are being met.

Governance

S & T are in direct control of the business, with little direct outside input. Their bank manager is actively involved with some of the decision making. There is no formal strategic plan.

Entity structures

A trust owns the land. A company structure is used to run the properties.

Summary/Key points

- Very good systemisation and simple systems
- Priority given to good communication and building staff skills
- Tight control on finances
- Frustrations with rural service providers
- Farms are all located close together

Interview #7: M

25 July 2005

Overview of farming operation

- An equity partnership between three Waikato farming families
- First farm purchased as an equity partnership agreement 10 years ago.
- Current investments include 7 mid Canterbury dairy farms, 1 sheep & beef farm (Southland), 1 overseas dairy development.
- Virtually all of the properties are managed by an equity partner who has a minority shareholding.

Issues

- Equity partnerships have had both positive and negative effects. On the positive side the quality of manager by using an equity partnership agreement has been very high. The down side is that gaining economies of scale and the ability to make rapid business decisions for the wider group is a relatively slow process. This is because all of the minor equity shareholders need to be in agreement before anything can progress. This means ideas must be sold to the partners and agreements can take some time, eg development of company web site.
- Having a solid equity partnership agreement at the beginning of the agreement is absolutely essential.

- It has been found that a higher level of communication is essential when dealing with multiple properties in various locations. The current reporting process is as follows:

  - Each farm manager provides a physical report to the admin office on a monthly basis.
  - Financial transactions are entered into Cash Manager by the farm managers and then sent to the admin office on a batch payment basis.
  - Invoices are then paid and a summary of progress on a year to date basis is sent back to all of the equity partners.
  - GST is done on a monthly basis as a process of audit checking.

- The comment was made that the equity partnership entity was never envisioned to be a medium to large business, and as such processes were not set up with that scale in mind, eg the administration office has only been in operation for two years, and it has taken a significant amount of time to make this happen. Prior to this there were large amounts of unpaid work put in by the partners.

- A key feature of this equity partnership is that each of the shareholders have a particular skill to contribute, eg one handles the conversion process, the second is good at industry issues and production factors, and the third is good with production issues and handling the administration side of the business.

- The line between management and governance has not always been clear. In the initial days the equity partners were heavily involved in management as well as governance. Today their role is more of governance than management, although the line is still blurred.

- At stages it has been difficult for this line of governance versus management to be separated, particularly if one of the farm managers has been under-performing. There has been pressure for the main equity partners to become too involved to try and correct the situation. This can have a negative impact on the confidence and enthusiasm of the equity manager.

- The equity managers are responsible for preparing a financial budget each season. This is then signed off by the shareholders. The admin office is charged out on a user pays basis as used by each particular farm.

- Because of the equity partnership arrangement this business has been slower to capture some economies of size, eg website development, HR programme, financial comparisons between farms, limited bulk purchasing of supplies. M stated that what they lose in capturing economies of scale is compensated by the ability a high calibre of people through the equity partnership process.

- In the initial years there have been negative effects on lifestyle as the business was developing. For some of the equity farm managers who are not good at delegation their lifestyle has definitely suffered. However for M in the long term the equity partnership has had many benefits.

- As the business has grown there has been a definite need to develop robust communication and reporting systems. While the framework has been there initially, it has only been in the last two years whereby a solid system has been put in place.

- In the initial years there has been no formalised process of strategic planning. A strategic plan has only been in place for the last three years. This was initially developed by using an external facilitator to gather ideas from each party on a one to one basis. Now the plan is reviewed on an annual basis, with full shareholder meetings three to four times per annum. The group have found benefits in developing the plan as they now have something to reference their progress against.

Recommendations

- An external director would be useful.

- More use of a solid strategic plan.

- Put more effort in trying to capture benefits or economies of scale.

Summary

- Having good reporting procedures and quality systems in place has had direct benefits for the group.

- Having systems in place has enabled the business to continue to grow, and will not be a limiting factor in the future.

- Having an equity manager situation has enabled the group shareholders not to worry about staffing issues. Staffing problems were not one of their concerns, in contrast to most of the other interview participants.

Interview # 8: R

18th August 2005

Overview of farming business

R started his career as a sharemilker in the Wairarapa. He eventually moved on to purchase a 400 cow dairy farm in the Wairarapa in partnership with his brother. After a period of time it became apparent that the partnership was not going to work. R sold up and purchased a dairy goat farm in the Waikato in 2000.

In 2003 R signed up to purchase a neighbouring dairy farm, with possession date 1st June 2004.

The dairy goat farm has approximately 400 goats on 26 hectares. The dairy cow farm is approximately 50 hectares running around 140 cows.

R manages the dairy cow farm and a manager is employed on the goat property. The properties are across the road from each other.

The dairy goat farm is owned under a partnership structure with R and K. The cow farm is managed under a company structure (LAQC).

Why expand?

There was a natural urge to grow the business, to help build security for retirement. R was happiest when he was actually milking cows and wanted to get back to this. They did not have a clear goal of expansion or any written plans. The opportunity to purchase the neighbour's farm came about through a chance encounter on a wet spring day.

Issues faced with expansion

- Staff management skills are a critical component. R has previous experience when dealing with staff. These skills were learnt on the job.

- R is a very strong record keeper and he believes this is an important part of his operation. Any staff employed must know the value and be able to manage record keeping, particularly with increased administration requirements today.

- R admitted he is not a good delegator of responsibility. He needs to learn to let some things go and to let staff make some mistakes. He often finds it is easier to do it yourself. He is still very much hands on and has not made the transition to being hands off.

- Since expanding R has found his quality of life has actually decreased. He is now busier than he was before as he is overseeing the goat farm and possibly being too hands on in this respect. The classic conflict of enjoying farming because of the hands on practical nature versus the need to become more hands off when expanding is apparent in this case study.

- There do not appear to be any written plans or any formal business planning procedure. R did have some goals he set each year and these were discussed and communicated with staff. This helps staff take ownership of their farm.

- Prioritisation of goals was seen as a very important requirement as there are simply not enough hours in the day. With running more than one unit there are naturally more problems that need to be solved. R felt it was important that the owner did not let issues get to him and needed to keep a cool head at all times.

- Support from rural service providers was essential when running more than one property. This is because you had to rely on these service providers to be there when you needed them. This was a case of developing good relationships and also being the good customer. This appears to be a common theme amongst many of the case studies whereby they have developed good relationships with suppliers.

- As in many other case studies the farm purchased was very close (across the road). While this has many advantages in terms of the ability to keep a close eye on performance of the other property, I felt this was also restricting R from becoming more hands off and making a clear line between governance and management. When R finished his day if the manager of the goat farm was still working he would often assist them at the end of the day. While this is a good gesture, it is unlikely that this would occur if the property was not so closely located.

- R was questioned as to where the next stage of growth might occur, especially given the fact that his hands on nature of managing would not work with more properties. Options they had considered were to buy into an equity partnership whereby there is an equity manager there to deal with on farm issues. Alternatively, they could sell both properties and buy a larger dairy unit. I felt that R had some problems with this with regard to management of staff and becoming less hands on. A third option is to buy another small unit. R would then remove himself from the shed and take a role in governance. However as previously mentioned there is a conflict between this and R’s desire to stay hands on and working with the cows.

- Given this conflict R was questioned as to whether he would use outside expertise to help manage the expanded businesses. He would be willing to do so if the situation arose.

- The question of why your business needs to grow needs to be carefully examined. It was felt a lot of his neighbours are expanding purely because that is the trendy thing to do.

- R had concerns about future availability of staff given the shrinking rural communities and the fact that farmers are not encouraging people to join their industry. This push needs to come from farmers as individuals, particularly encouraging their own children to carry on farming.

- In this case study there were limited economies of scale, due to the differing species of stock farmed on each property. Some efficiencies were highlighted with regard to sharing of machinery between properties. This was only possible due to the close locality of the farms.

- In the two years that R has been managing two properties their lifestyle quality has declined. They have less free time and more problems to solve. R commented that the wife and family are often making more of the sacrifices in these instances.

Interview #9: D

2nd September 2005

Overview of farming history

The X's have been involved in dairy farming all their lives, moving around the North Island several times before settling in the Central North Island.

Currently they own 14 dairy farms running approximately 20,000 cows and producing 5 million kg MS per annum. 10 of these farms are operated by lower order sharemilkers and the remaining four employ farm managers.

In contrast to some of the other subjects, there is a large geographical spread between the properties. This ranges from the Hawkes Bay to Taupo to the Central Plateau, Te Kuiti and as far north as Central Waikato.

The business was essentially developed by two brothers. Their respective partners have also been an integral part of the business. This is very much a family business with three of their sons now becoming heavily involved in the farming operation.

Historically this operation has had an image of being loosely managed but has had very impressive growth. In the last two years the X brothers have employed an Operations Manager who now essentially runs the business.

Issues faced regarding expansion of the business

As expansion has occurred rapidly and to a much larger degree compared to most other farming businesses, the degree of management, governance and financial control has not always kept pace. This at times has caused the rural lenders some degree of concern.

Even now they have employed an Operations Manager, there is still a very lean governance structure compared to most other businesses of this size.

Variance of Properties

As their operation has expanded farm purchases have been outside their home area. This has added new challenges as it has taken time to adjust to different soil types, different pasture growth rates and different climates. The question needs to be asked if you are considering expanding outside your base area, "have I got the skills to adapt to farming in a totally different environment?"

People

With an operation of this size there are logistical issues to deal with regarding the number of people involved in the operation. This can be separated into two main issues. Firstly HR compliance issues, and secondly developing personal skills to deal with these people. The comment was made *"we are now farming people, not cows"*.

With the growth of the business there has been a need to develop structures and systems. Appropriate structures means selecting the right choice of manager, lower order sharemilker, 50/50 sharemilker or equity partner for your business. Appropriate systems include developing robust reporting and communication systems.

While it is important that each property can be analysed in its own right regarding profitability, it is also important that the farms can be integrated to capture the benefits of running a larger business.

The systems developed need to be common and replicable across all farms. This also enables comparison between the properties. The comment was made "if systems and structures aren't in place expansion will stop".

Why expand?

The question was asked as to why these people continue to expand their operation when there is no financial pressure to do so. Essentially it is because the brothers love the cut and thrust of the farm deal, and take enjoyment out of developing farms and developing the farming landscape.

In recent years the business has developed a strategy plan. In particular, they have developed some criteria for assessing future growth opportunities as these are coming up all the time. They now ask whether or not the prospective farm purchase meets their criteria for the right investment.

Management

In the past two years a management team has been developed which involves both brother, their respective partners and their operations manager. Their accountant and solicitor have also been co-opted on to this team as required.

The X's have found it very hard to relinquish any control of their business and this is still an issue sometimes. Has this impacted on the growth of their business?

The management team now meet monthly. There are written agendas, minutes and each person has specific roles in the business, eg housing, stock, fertiliser, administration and strategic planning.

The management team have also formulated standardised policies for the entire group.

The operations manager loads all the accounts for the business and is supported by an Office Supervisor. They use MYOB to input data. Each month after the invoices have been loaded into MYOB the X's then sign off a batch payment which is then direct credited into the various accounts. The accountant then performs a basic auditing role.

Order books are now used for each farm. This allows the ability to individually identify costs for each farm. This has only been a recent development.

Operating Structure

The question was asked as to why lower order sharemilkers and managers are used compared to 50/50 sharemilkers or other structures. Essentially the brothers are still very much hands on in the business and they would not like to lose some of the control to a 50/50 sharemilker. They have found there are less hassles with lower order sharemilkers compared to managers. To counter this it is often found that the LOSMs are too independent and do not listen to advice.

An advantage of managers or LOSMs over 50/50 sharemilkers is that stock can be shifted between properties if required.

They are looking at equity partnerships very seriously and have just entered into their first equity partnership with an existing manager.

Economies of scale

These included branding, purchasing power (especially fertiliser), employment of their own vet (5% decrease in animal health bill), and administration costs per unit of output.

Diseconomies

Bureaucracy, fighting industry issues. There was evidence of a tall poppy syndrome, ie plenty of organisations would like to see the X's taken to task. Compliance costs, production diseconomies (due to lack of systems).

In previous years the focus has been to on grow the scale of the operation. There is now an emphasis on trying to improve productivity within the existing resources.

Governance

There is still no clear distinction between governance and management of this business. However the development of a management team and development of a strategic plan is a step in the right direction.

As the business has grown the X's have certainly had less free time available. But they are passionate about farming and enjoy it, and this their life. They do not see any issues whatsoever with not having any free time. This sometimes develops into differences of opinion with their managers or sharemilkers who want time off.

Rural suppliers

Sometimes the X's have felt like they are treated as dumb farmers by rural suppliers and not as a corporate. Rural suppliers are not geared towards large farms, eg they do not have large account managers and have an inability to code inputs to various properties (and they do not recognise the necessity to do so).

The lack of systems, structures and governance has had an impact on the bank's desire to lend.

Family

Compared to most other interviews there is a higher degree of family involvement with this operation. This was seen as a good thing, although there are some significant succession planning issues which are being worked through at present.

Planning

Historically there has been no formal planning. Now there are written goals and objectives and criteria for future purchases. Managers now have to provide management plans and production targets, and submit monthly reports. The key focus here has been appropriate to encourage managers to take ownership of their operations. At this stage there is no requirement for the managers to meet financial targets, but this is likely to change in the future.

All managers now attend a monthly meeting and submit monthly reports. They have also instigated a farm challenge which is judged annually and monthly. The criteria are based on production, reporting, animal health, management and weeds.

Interview #10: J

25th September 2005

Overview of farming situation

J supervises a trust which owns ten dairy farms, a sheep/beef farm and a commercial forest. The farms all neighbour one another, and are located in the South Waikato. Although the trust has not gone through the experience of growing from one farm to multiple farms, it does experience similar issues with regard to multiple property ownership.

Historically all of the dairy farms were managed by 50:50 sharemilkers. In the last year this has changed, and there are now a mixture of managers and 50:50 sharemilkers.

Governance

There is a clear distinction between governance and management. The trustees deal with governance issues. Reporting to the trustees is a management team, which is comprised of the dairy farm supervisor, the sheep farm supervisor and manager, and the accountancy team.

The trustees do not necessarily have any farming experience. To assist the trustees in their decision making they have co-opted a trustee who has a high level of farming experience. This appears to have been a very successful move for the trust.

Planning

The trust undertakes a comprehensive planning process. The trustees are responsible for setting the strategic direction for the trust. The management team are then responsible for developing long term and annual plans to meet the trustee's objectives.

Financial Management

With a large organisation such as this (particularly being a trust) the financial recording and reporting requirements are very high. All of those involved in the farming operation, from the managers and sharemilkers to the supervisors and accountants are expected to meet strict reporting deadlines every month. This enables accurate monitoring of physical and financial parameters against targets laid down in the annual plan.

Human Resource Management

Historically the trust has employed 50:50 sharemilkers. This was due to the fact that the farms were in a developmental state, and also the trustees had little involvement in the running of the property. In recent years as the farms have become more developed, the degree of control (by the trustees) has increased some of the farms have moved to being run by a farm manager rather than a sharemilker, ie the trust has purchased their own cows. This has led to an increased level of supervision responsibility and involvement. It is too early at this stage to assess the overall impact of the move on the business.

Given the farms are being run in trust for their owners there is a high level of obligation to ensure legal compliance issues are being met. A considerable amount of time is spent by the supervisors and financial management team in this area.

Communication

To ensure the smooth running of the farm side of the trust experience has shown that effective and timely communication is absolutely essential. Good communication is expected in the areas of physical and financial performance, marketplace trends, and opportunities for development or expansion.

Use of Outside Expertise

Given that the trustees have traditionally had little farming experience there has been a high level of reliance on outside expertise. In fact the success of this trust has in many ways been due to the strong level of leadership by the trust chairman and his ability to recruit a good team of rural professionals to run the business.

Economies of Scale

To date the ability to fully capture economies of scale has been limited by the fact that sharemilkers have been employed. Some economies that have been captured include:

- Bulk purchase discounts on fertiliser, seed and chemical
- Undertaking some research and development on their own properties
- Group training exercises

Some diseconomies of scale have also been apparent at various times. For example the scale of the business has meant that repairs and maintenance expenditure incurred by sharemilkers on behalf of the trust is not heavily scrutinised. Put another way, if the farm was run by an owner-operator it is likely that they could have found a cheaper way undertake the repairs.

4.2 Data Coding

To aid with the collation and analysis of the information gathered in the interviews, the key points from each interview were coded onto a spreadsheet. This information is shown below.

Table 1: Coding of Interview Information

Dissertation:
Interview analysis

	Personal Attributes					**Firm Attributes**					
Int #	Age	Education	Comm. Skills	Organisational Skills	Risk Profile	No of farms	Geographic spread	Entity structures	Mgmt (& staff) structures	Governance structures	Family involvement
					(my assmt)						
1	30's	FBM	Ex	Ex	Med	3	Small	Co,trust	mgr, losm		nil
2	30's	Massey	Av	Gd	Med	7	Small	Co	losm,mgr	no separation	nil
3	40's	Lincoln	Gd	Gd	Med	2	Small	Co,trust	mgr		nil
4	40's	Massey	Ex	Ex	Med	4	Small	Co,trust	mgr, e/p		nil
5	40's	-	Av	Gd	Med	2	Small	p/s, co	mgr		nil
6	40's	Massey	Ex	Ex	Med	4	Small	Co,trust	losm,mgr	no separation	nil
7	50's	-	Gd	Ex	Med	9	Large	Equity p/s	eq. mgr	board	nil
8	40's	-	Av	Gd	Med	2	Small	p/s, co	mgr	no separation	nil
9	50-60's	-	Av	Av	High	14	Large	Co,trust	mgr, losm	no separation	some
10	-	-	Gd	Gd	Med	12	Small	Trust	mgr, 50:50	board	nil

Emergent Issues

Int #	Staff mgmt	making transition from hands on to hands off	governance vs mgmt	more paperwork	having enough equity to expand	expansion of operation is reducing enjoyment	lower performance	lack of systems	economies of scale	enough time to spend on strategic planning	ability of suppliers to handle multiple properties	use of technology to ease mgmt
1	y	Y			y			partially	y	y?	?	y
2	y		y	y		y		partially	y	n	?	
3	y	Y		y		y	y	y	y	n	y	
4	y	Y	y	y				partially	y	n	y	y
5	y									y		
6	y	N	y	y	y	n	n	n		n	y	y
7	n		y	y			n	n	y	y	n	y
8	y	Y		y	y	y	n	y	minimal	n		n
9	y	Y	y	y		n	y	y	y	n	y	n
10	y	N		y	n	n	y	Y	y/n	y	y	y

5.0 Results: Analysis of Interviews

This section discusses the key issues that arose from the interviews and the literature review regarding the transition from single property ownership to multiple property ownership.

5.1 Staff

In virtually every interview, the issue of staff management arose. The ability to successfully recruit, motivate, and manage staff is a key skill that will be required by farm owners if they are to run multiple properties.

Managers v Lower Order Sharemilkers

While it must be stressed that this research is by no means statistically valid, there was a definite trend to employing Lower Order Sharemilkers (LOSM) rather than farm managers. By employing a LOSM, the task of employing and managing secondary staff on the property is that of the LOSM rather than the farm owner. This includes the administrative tasks such as calculating holiday pay, leave rosters, and PAYE tax.

Interestingly, only one of the ten farmers interviewed employed 50:50 sharemilkers. When questioned why not, the two main responses were a) lack of profitability or b) concern over lack of control (over the sharemilker). Another advantage of employing managers or LOSMs over 50:50 sharemilkers is that stock can be shifted between properties if required.

Equity Partnerships

Two of the case study participants utilised an equity partnership system. Although the farm owner had the majority shareholding, the farm manager also had a minority equity shareholding in the business. This had significant advantages and also some disadvantages. Advantages included

- Ability to attract and recruit a very high calibre of staff
- Closer alignment of goals between owner and manager
- Managers taking more pride in their operations
- Delegation of all secondary staff employment issues to the equity manager

The primary disadvantage in the equity partnership scenario was the ability to effectively capture economies of scale. This is because each individual farm had a different equity manager. Thus before any significant decisions can be made with regard to capturing these economies of scale all equity partners must be in agreement. Eg development of a group website to help attract quality staff.

Building a Team

Many of the case study participants had purchased their properties in close proximity to their existing farms. This had the advantage of capturing one of the possible economies of scale, which is the building of a team culture amongst the employees working on these properties. Other benefits included improved communication and sharing of ideas between team members, sharing of labour and stimulation of friendly competition between farms.

The building of a team culture and environment did not happen automatically. The farm owner had to consciously structure meetings and activities to stimulate interaction and communication.

As previously mentioned, one of the disadvantages of an equity partnership structure was that building a team culture across all of the properties was somewhat more challenging as each individual property had a separate owner/equity manager.

The importance of encouraging the farm manager (and his/her staff) to take ‘ownership’ of the property was also mentioned several times. Methods to achieve this included performance bonuses, competitions (between farms), and use of equity partnership structures.

Economies of Scale - Staff

Of all the case studies, only one farm owner had begun to seriously capture the potential economies of scale with regard to staff management. This group had developed its own website to promote the farming group to prospective employees, and had just begun enrolling all of the farms in a farm employer accreditation programme. None of the farming groups has evolved to a stage where they had employed a human resources manager to recruit and manage staffing issues.

Development of Human Resource skills

Virtually all of the properties commented on the fact that development of good communication and staff management skills was absolutely critical when managing multiple properties. It was interesting to note that virtually none of the case study participants had undertaken any formal training in HR management. When questioned why, some participants felt that this was not necessary as they had gained experience in dealing with staff over their many years of employing. This does suggest that there are opportunities to assist farm owners in up-skilling in human resource management skills when making the transition to multiple property ownership. As one respondent commented, *“We are now farming people, not cows”*.

Antipathy (of Staff) Towards Change.

In a small number of cases there was resistance by current staff members when the farm owner purchased additional properties. This resistance centred on uncertainty regarding the future of their position, and sometimes a resentment towards new staff members as their position or level of authority may have changed.

5.2 Geographic Spread

In the majority of case studies the properties were in a very close geographical location in relation to other properties owned. This appears to have been a subconscious decision on the part of the farm owner. Although many case study participants said they would look at purchasing a property in any location, in reality there is a strong desire to purchase farms close by. Although this seldom led to physical efficiencies such as shared use of machinery, it does enable the farm owner to visit the farms at short notice if problems should arise. There are also perceived advantages in the ability to build a team environment if the farms are in close travelling distance.

Another advantage of having farms in a similar locality was that the farm owner generally had a very good understanding of the climatic and physical aspects of that particular farming district, and had designed a farming system which maximised profitability in that particular location.

As an example of this issue, there was one interviewee in particular who had expanded well beyond their traditional ‘home base’. This has added new challenges as it has taken time to adjust to different soil types, different pasture growth rates and different climates. The respondent made the comment that if you are considering expanding outside your base area ask yourself *“have I got the skills to adapt to farming in a totally different environment?”*

5.3 Communication Skills

Interview participants were subjectively evaluated on their level of communication skills using the researcher's experience as a farm advisor in dealing with farmers.

In general, those interviewed had very high level of communication skills, both as oral communicators and written communicators. These people talked to a wide range of people within the industry, constantly updating themselves on latest trends and information that could affect their farm. Within their farming systems they were generally very good communicators with their staff members. To fully evaluate this issue it would have been necessary to interview staff members on each property, which was not practical.

These farmers utilised a variety of technologies to ensure they were constantly in touch with staff members. These included mobile phones, hand held radios and frequent use of the internet and email.

5.4 Organisational Skills

In undertaking the case study interviews it quickly became very apparent that the farm owners needed a high level of organisational skills to effectively manage multiple farming enterprises. A variety of systems had evolved to help with organisation on these farms. In some cases specific administration bureaus had been developed to streamline the business, and in other cases this task had been outsourced (to accountants or farm consultants).

5.5 Education

It was interesting to note that the majority of those interviewed had some sort of tertiary qualification in agriculture. Once again it must be stressed that this was not a statistically valid survey, and this may reflect some bias in selection of case study participants. Or this may be an indication that a higher level of education is proving beneficial when it comes to the top tier of farm management.

5.6 Governance versus Management

Only one of the case study participants had separated governance of the business from the management of the business, and this was only a relatively recent development. It must be recognised that for the majority of small to medium enterprises there is little distinction between management and governance of the business. It became apparent to the researcher that in many cases the lack of distinction between the two areas was leading to a shortage of time being spent on governance of the operation, and the possibility that opportunities were being foregone. For example, the majority of businesses did not have a written strategic plan, which in some cases was leading to poor decision making at the higher end of strategic planning.

When discussing this issue it must be made clear that the separation from governance from management is not merely the removal of the farm owner from the day to day physical tasks of farming. In many cases this had happened with the larger units, but they were still very involved in administrative and human resource management issues. This area of farm management needs to be explored further to see what sort of limitations are being placed on the business due to the lack of strategic planning and governance. For example during interview #9, it was noted the X's have found it very hard to relinquish management control of their business. Has this impacted on the growth of their business?

5.7 Systemisation

One of the most obvious emergent issues arising from the case studies was the need to develop robust systems and policies for the farming operation. Robust systems help to fully capture the farm owners experience and skills and transfer them to the person managing that particular property. Systems also help to highlight any problems at an early stage.

It appeared that those farming businesses which had developed robust systems were more in control of their properties and also had the ability to grow their business further. Those who did not have robust systems were going to find pressure points in their business at some stage in the near future. In the words on one respondent,
"if systems and structures aren't in place expansion will stop".

An example of how systemisation can effectively occur in a farming business is in the area of pasture management. One of the case study participants had developed the following system which all of his managers strictly adhered to.

1. Weekly pasture monitoring of the entire property
2. Results of this pasture monitoring are faxed or emailed to the farm owner on a Monday afternoon (no later)
3. The farm owner in conjunction with the farm manager make decisions on round length or supplement feeding based on the results of the pasture walk
4. The farming system is deliberately kept simple. This is done by having a higher than average stocking rate, which results in no topping of pastures and a lower chance of pasture wastage. In addition, no crops are made on the farm and no supplementary feed is brought into the system. Higher than average quantities of nitrogen are used. Contractors are used to apply nitrogen and to harvest any grass silage if this occurs. As a result the farming system is relatively simple

and the farm managers only need to focus on pasture management and animal health issues.

Another example of how systemisation can assist the farming business was the development of a farm administration bureau. The bureau worked in the following manner with regard to financial administration.

1. The farm manager (equity manager) receives the invoices for that particular property, codes the invoices and enters them into a financial management software programme (Computer Concepts CashManager).
2. On a monthly basis the entries in the CashManager programme are batch emailed to the administration bureau.
3. The invoices are checked at the bureau, counter signed and then paid by direct debit.
4. The bureau updates the year to date information. This is then emailed to all shareholders on a monthly basis.
5. The administration bureau is charged out on a user pays basis, based on the time used by each particular property.
6. By having a separate administration bureau there is a self audit checking system in place. The other main benefit is that the farm manager's time spent on administration issues is minimised, but they are still receiving full financial management information necessary to run the business.

Having such a system in place means that the growth of the business in the future is not going to be compromised by the owners becoming too involved in day to day management or administration of the business. This is a key issue that needs to be considered by many properties.

5.8 Equity

When discussing the growth of the farming business and purchase of subsequent property and finding of sufficient equity to make the next step was certainly an issue for most people. This was particularly so when purchasing their second farm. In subsequent purchases equity constraints were not so common.

Although the issue of equity (and cashflow requirements) are the same for any business, it is certainly an issue which must not be forgotten about when looking at the transition from one farm to multiple properties.

In some cases family equity had been called upon by way of guarantees. Other solutions included equity partnerships or sharemilking agreements.

5.9 Lifestyle

When a business is expanding additional demands are placed on the owner/manager. These include time demands, stresses with dealing with additional staff and added financial pressures. This additional time requirement, stress and financial pressure can have negative impacts on the lifestyle of the farm owner. As such, expansion in some cases has compromised the quality of life.

Those interviewed in the case study process were at various stages of expanding their businesses. The impact on lifestyle seems to correlate with how far through the expansion process that particular farmer was. For example, those who had only expanded to two or three properties were still very much “at the coal face”. These people had higher demands on their time, often had not fully developed robust systems and their lifestyle was definitely compromised. For those farmers who had gone to five or more farms, in many cases they had robust systems in place and their lifestyle had improved, although, this was not always the case. Absence of robust systems was meaning even those with a high number of properties were finding their lifestyle was compromised.

The case studies highlighted the fact that the potential negative impact on lifestyle during the initial stages of expansion should not be forgotten or under estimated. A caveat to this comment is the fact that for a number of those interviewed farming was their passion as well as their business. In other words they were happy spending every waking minute working on, or in, their farming business. It is a reminder that the issue of impact on lifestyle needs to be viewed from the owners' perspective and what their goals are. Ideally the 'owners perspective' should include the perspective of their spouse and family.

5.10 Economies of Scale

As a farming business grows in size in theory there is opportunity to capture some economies of scale. In general terms the case study farms did not show a high degree of capturing economies of scale. Areas where efficiencies were being gained included:

- Reductions in overall administration costs per unit of output
- Where good systems had been developed there was some transfer of experience and skills
- Some degree of purchasing power from rural suppliers.
- Employment of specialist tractor drivers or repairs & maintenance workers
- Employment of a dedicated vet for the business
- Ability to share some machinery and equipment between properties

Diseconomies

In some instances there were examples of inefficiencies or diseconomies of scale. Such diseconomies included:

- Bureaucracy, handling compliance issues. There was evidence of a tall poppy syndrome, ie organisations wanting to make an example of large operators.
- Production diseconomies, due to lack of systems, lack of control over staff, or simply too much focus on increasing scale rather than trying to improve productivity within the existing resources.

5.11 Strategic Planning

The farm owners were questioned as to whether they had a strategic plan in place and whether this was written down. There was no discernable trend as to those farmers who operated with a written strategic plan, and those who did not. The exception was that those who operated with equity partners or large numbers involved in executive management appeared to be more likely to have a written plan.

5.12 Rural Service Providers

For many owners of multiple properties when purchasing goods and services from rural providers it is important that items purchased are correctly recorded to each individual farm. This enables accurate income and expenditure reporting for individual properties. This can also have flow on effects, eg the amount of fertiliser applied to each property will affect the nutrient budget records for that property. During the interviews it became apparent that in many instances rural service providers are not well equipped to efficiently handle multiple property ownership. Examples of this included:

- In a rural supplier store which sold a wide variety of products, there was no system to record which farm the products were purchased for while recording all purchases on one account. Also, there is no easy system to allow employees to purchase goods while retaining an accurate recording system.

- Many farm owners wanted the ability to transfer stock easily from one property to another to accommodate changes in feed supply. However, one particular livestock recording company would not allow farmers to maintain one livestock herd code and transfer animals freely. Rather, the farmer needed separate codes for each particular property which led to a large amount of paperwork for little or no benefit to the farmer.

- Very few rural supply companies have traditionally employed key account managers

Another aspect of rural service providers relates to the role of finance providers. One particular respondent commented that as the size of the business grew so did their debt level, and thus the level of risk exposure to that client by the finance provider (the bank). In this case this meant the bank took a greater deal of interest in the performance of the business. Aspects such as governance structures and financial reporting systems took on more importance. Subtle pressure was applied by the bank to encourage the advancement of these aspects.

5.13 Technology Use

Some of the farm owners were maximising technology usage to increase the efficiency of their farming operation, and thus make managing multiple properties an easier task. Common examples of technology usage included:

- Frequent use of high speed internet and email technology to send information to various properties quickly and efficiently.

- High usage of cell phones to stay in touch with farm managers.

- Using financial management software programmes and pasture management software programmes to monitor and evaluate progress on individual properties.

Interestingly, none of the farms interviewed were involved in very high levels of production for their particular area. Typically farms in the Waikato were producing 1,000 to 1,200 kg MS per hectare. This is an above average level of production, but nowhere near some of the high levels of production seen in individual farming operations, which can be as high as 2,000 kg MS per hectare. This can largely be attributed to:

a) A focus on profitability rather than production; and
b) A desire to keep the systems simple so farm managers can easily handle the situation.

5.14 Succession

Somewhat surprisingly, family involvement and succession issues were not a major issue of concern for most of those interviewed. This may reflect some selection bias. Those interviewed were in a range of situations – some were second generation farming families (or greater), and the farm had in some form been handed on to them. Anecdotally it would appear that the issue of passing on a farming business that has multiple properties is a relatively new one: in previous generations it was only a matter of passing on the single ‘family farm’.

Although the issue was not explored in depth, it would appear that there are some new issues around farm succession to consider when passing on a larger farming business. In one particular instance although the succeeding generation had developed some sound on-farm management skills (feed management, machinery etc), they had not been exposed in any great depth to the financial machinations of running a large business. Reid (2004) commented how in successful businesses the skills of business management were instilled into the succeeding generation at a very early age, although usually in an informal manner while sitting around the dinner table.

5.15 Why Expand?

The case study participants were questioned as to why they were intent on expanding their operations. A range of answers were given, such as:

- Growing equity
- Building a nest egg for retirement
- A desire to grow the business, as the previous generation had done
- The challenge of taking on another business
- Enjoyment of growing the business

It was interesting to note that while a number of respondents said that the expansion of the business was detrimental to their lifestyle, they also stated they enjoyed the challenge of running another property.

There did not appear to be any link between expansion and having a formalised plan for growth of the business. Clarity of the reasons why expansion should occur was not always apparent.

6.0 Conclusions

The topics discussed in section four highlight the range of issues that farmers face when managing multiple properties. This section summarises these issues, and provides some recommendations for farmers (or those associated with farmers) facing this issue.

Table 2: Summary of Pitfalls

Pitfall/Problems Encountered	Potential Impact on the Business
Strategic Planning	
Lack of owners time to focus on strategic issues facing the business and strategic planning	Progress of business hampered
No distinction between governance and management. Becoming too hands on?	Too much time involvement. Staff become frustrated as they feel they are not trusted to do the job
Decisions become adhoc as life gets busier	Poor decision making
Knowing when you are becoming too large to retain a tight control of entire operation	Becomes a limitation on expansion. Recommendation – systemisation, equity partnerships, operations managers
Not knowing when you have enough farms/land (lack of strategic planning?)	Expansion occurs for the wrong reasons, leading to problems in the future

Pitfall/Problems Encountered	Potential Impact on the Business
Business Management	
Lack of systemisation	Inefficiencies in the business. Impeding growth. New staff take longer to ‘get up to speed’
Lack of equity or cashflow impacting on the business	Slower growth than desirable. Viability of business at risk , especially in an industry downturn
Lack of economies of scale, especially labour	Decreased profitability per unit. Lack of competitiveness.
Difficulties when dealing with rural service providers. Lack of ability to code goods to right farm	Time wasted in sorting out administrative issues. Inability to determine profitability of individual units. Incorrect reporting of inputs and outputs per farm.
Performance of existing unit can suffer (when additional property is purchased)	Lower productivity and profitability .
Additional costs creeping into business (eg farm manager buys new wire compared to reusing old wire)	Increased expenditure, decreased profitability
Lack of a good financial recording system	Loss of control of business. Warning signals not identified until there is a major problem. Opportunities missed.
Lack of good reporting systems	Loss of control of business. Performance impaired. Staff management compromised
Locality of properties – if geographically spread, potential for problems	If a large geographical spread there can be inefficiencies due to travel time, and inability to be ‘on the spot’ to deal with issues. Good reporting and communication systems become paramount.

Pitfall/Problems Encountered	Potential Impact on the Business
Business Management	
Complicated farming systems	Potential for staff to make mistakes. Takes longer for staff to learn the system. Harder to find the right staff.
Equity partnerships (has advantages and disadvantages)	Can slow down decision making, and restrict economies of scale.
Negotiation skills (lack of)	Ability to expand business is impaired. Problems when dealing with staff
Lack of time mgmt skills, prioritisation	Stress, loss of efficiency, loss of enjoyment of business
Human Resource Issues	
Time involvement through dealing with numerous staff members	Additional time pressures. More stress. Less enjoyment of farming
No team culture	Reduced staff performance. More staff tensions.
Lack of communication	Reduced staff performance.
Lack of delegation	Higher time involvement and stress levels for owner. Staff frustrations
Not adjusting mindset when farming multiple properties (ie need to learn not to micromanage)	Higher time involvement and stress levels for owner. Staff frustrations
Learning to accept that staff won't do the same job as you	Poorer performance in some instances.
Most owners of today have had no formal training in staff management.	High staff turnover. Added stresses in running the business. In some cases this is constraining growth

Pitfall/Problems Encountered	Potential Impact on the Business
Personal/Lifestyle Issues	
Lack of owners time to relax, spend time with family etc	Reduced enjoyment. Increased stress levels
Additional time spent in running the administration side of the business	Reduced enjoyment of farming
Transition from being ‘hands on’ to ‘hands off’.	Impact on enjoyment of business

Recommendations for those contemplating Expansion to other properties

Recommendations

The following is a series of recommendations for those considering purchasing additional properties, or for those who have already done so and want to improve the performance of their business. These recommendations are not in any particular order, but are grouped into a series of categories.

Planning & Communication

1. Written strategic plan

   Potential Benefit to the Business: Clarity of direction to self, family and other stakeholders

2. Formalised business plan

   Potential Benefit to the Business:

   Clarity of direction to self, family and other stakeholders

   Gives confidence to banks

3. Operational plans

   Potential Benefit to the Business:

   Increased staff efficiency, improved communication levels. Ensures knowledge is not lost when staff move on.

   Example: Calf rearing plans. Milking routine plans.

4. External director on the governance team

   Potential Benefit to the Business:

   Independent viewpoint of business performance and direction.

5. Independent expertise on the management team

   Potential Benefit to the Business:

   Improved performance of the business

6. Clear distinction between management and governance roles.

   Potential Benefit to the Business: Managers can achieve their full potential. More time available to owner to work 'on' the business, looking at strategic issues. Managers can take ownership of their individual operation.

   Example: Creation of a governance team. Managers are set performance targets, and report to the governance team

7. Reporting Systems (from workers/managers to owner and vice-versa)

   Potential Benefit to the Business: Improved communication & reporting of issues of concern. Tighter physical and financial control of business.

   Example: Manager emails/faxes a monthly report to the owner.

Business & Financial

1. Entity structures

   Potential Benefit to the Business: Need to ensure you have the right entity to maximise taxation benefits, while also ensuring accurate management reporting information is provided

   Example: The use of multiple trusts, companies and partnerships for essentially one owner can make accurate analysis of farm physical and financial performance difficult.

2. As business grows, need to retain control of finances, but have time to do this.

   Potential Benefit to the Business: Good financial control, but also more time to work on strategic aspects of the business.

   Example: Either employ someone to do the inputting for you, or ensure a very good flow of information back from accountant

3. Use of computer to aid in storage, processing and retrieval of information

   Potential Benefit to the Business: Time saving, more efficiencies. Enables operation a large operation with same performance levels as a smaller unit

   Example: Use of Cash Manager to process accounts over multiple properties, while still retaining the ability to analyse profitability of individual units. Use of email for communication. Use of Palm Pilot to enter & retrieve herd information

4. High levels of information usage

   Potential Benefit to the Business: Ability to identify and evaluate new opportunities for the business

   Example: discussion groups, seminars, reading latest publications

5. Robust administration systems

   Potential Benefit to the Business: More time available to owner. Less hassles.

   Example: Monthly or Bi-monthly reporting of income and expenditure, especially variances from budget. Correct administration of compliance issues with regard to staff eg employment agreements/contracts

6. Systemisation of on-farm practices and policies

   Potential Benefit to the Business: Ability to replicate successful practices and policies on to other properties.

   Example: Pasture management system is replicated across all properties.

7. Rural suppliers – improve reporting levels from suppliers to farm owners; develop relationships

   Potential Benefit to the Business: Cost savings. More accurate identification of inputs to outputs to each property.

   Example: Use of order books by staff so purchases can be tracked to individual properties. Banks have more confidence in your business, enabling further growth.

8. Give thought as to how to capture economies of scale for your particular business.

   Potential Benefit to the Business: Time saving efficiencies. Cost saving efficiencies.

   Examples:

- Reductions in overhead costs per unit of output
- Transfer of knowledge between farms and/or staff members, eg discussion groups between farms
- Negotiating group deals with rural suppliers
- Employment of specialist tractor drivers
- Employment of specialist repairs & maintenance staff
- Employment of a dedicated vet for the business
- Sharing of machinery and equipment between properties

Staff Issues

1. Creation of a team culture

   Potential Benefit to the Business: Learning from each other, challenge/compete with each other. Learn to trust other staff, and also take advice from colleagues rather than just the boss

   Examples: Team social events, friendly production competitions between farms. Team building events.

2. Maximise delegation

   Potential Benefit to the Business: More time available to owner. Less stress

   Example. Learn delegation skills!

3. Improvement of time management skills

   Potential Benefit to the Business: More time personal available. More time devoted to strategic issues/growing the business

Personal/Lifestyle Issues

1. Develop your strategic plan with **very clear reasons** why you are expanding. Ie why do you need/want another farm?

   Potential Benefit to the Business: Expansion is occurring for the right reasons.

2. Inclusion of family goals

   Potential Benefit to the Business: Expansion does not compromise family goals. Or if it does, owner/family are aware of the implications of expansion

3. Scheduled time off/holidays

   Potential Benefit to the Business: Maintenance of lifestyle goals.

4. Contract out unwanted tasks, eg administrative tasks.

   Potential Benefit to the Business: More time available. More enjoyment of running the business.

Conclusion

A wide range of information has been gathered for this dissertation, from a number of sources. The literature review, combined with the interviews has highlighted a number of areas that farm owners need to consider if they are going to purchase additional farming properties. The most salient points of this research have been compiled into a simple document that a farmer can read if they are contemplating such a move. This booklet is included in the appendix.

Expansion of the farming business by way of purchasing additional properties is not for the faint hearted. It can add considerable stress, debt and workload to an often already busy lifestyle. But if the required degree of thought, planning, effort are put into the expansion process the resulting benefits can be considerable.

7.0 Future Research

This research has provided an insight into the issues surrounding the transition from managing one farm property to managing multiple farming properties. It has also raised a number of questions that may warrant further investigation in the future. Such issues include:

- How important is it to create a distinction between management and governance in a large farming operation?
- Succession issues for large farming operations
- How to systemise a farming operation.
- Quantifiable research with regard to any of the issues raised in this dissertation.

References/Bibliography

Allen, J.K. (1999). *Strategic planning systems for New Zealand farmers.* A Kellogg Rural Leadership programme report.

Allen, J.K. (1997). *The viability of small dairy farms.* A report commissioned by MAF Policy

Corbin J, Strauss A. L. (1990). *Basics of qualitative research: grounded theory procedures and techniques.*

Dick. B (2003). *Grounded theory: a thumbnail sketch.* http://www.scu.edu.au/schools/gcm/ar/arp/grounded.html

Fonscea, A.V.d (2001). *Benchmarking and management behaviours of top sheep and beef cattle farmers*. Lincoln University.

Glaser B.G. & Strauss A.L (1967) *The Discovery of Grounded Theory: strategies for qualitative research.*

Hazel A.C. & Reid A.S. (1979). *Rapid Company Growth – how to plan and manage small company expansion.*

Jenkin J.W. (2000). *Managing Large Farm Businesses.* Institute of Land and Food Resources, Department of Food Science and Agribusiness, University of Melbourne.

Keating N C, McCrostie Little H. (1994). *Retirement and succession in farm families in New Zealand (south island).* MAF Policy Technical Paper 94/7, ISSN: 1171-4662, ISBN: 0-478-07356-9. http://www.maf.govt.nz/mafnet/rural-nz/people-and-their-issues/social-research-and-welfare/retirement-and-succession/httoc.htm

Levy Haim & Sarnat Marshall. (1994). *Capital Investment & Financial Decisions*

Lloyds TSB Agriculture. (2001). *Helping you achieve success: your guide to farm business expansion.*

Madden B.J. (1996). *Analysing the major farm management decisions for business growth & survival.* Department of Agriculture and Resource Management, Faculty of Agriculture Forestry and Horticulture, University of Melbourne.

McCrostie Little H, Taylor N, (1998). *Issues of Intergenerational Farm Succession: A Study of the Intergenerational transfer of the farm business.* MAF Policy Technical Paper 97/4a

Miles M. B. & Huberman A. M. (2002). *Qualitative Researchers Companion*

Nickell S.J. (1978). *The Investment Decisions of Firms*

O'Connor M (2005). Presentation at the Pioneer 2005 Consultants Conference. *What does a large farming organisation want from a consultant?*

Reid, Desiree J. (2004). *Living the Dream: Exploring Governance in exemplary farm businesses*. Massey University

Penrose Edith T. (1980). *The Theory of the Growth of the Firm*

Tagiuri R & Davis J. (1996) *Bivalent Attributes of the family firm.* Family Business Review, v9 (2), p199

Washer, R., Gardner, J. & McCarthy, I. (2000). *Factors behind the successful transition to farm ownership.* Primary Industry Management, 3(3), 41-43.

Yin, Robert K., (2003), *Case Study Research: design & methods*

Appendices

Appendix 1: Interview Questions

Interview Questions

Background Information

- Outline of farming enterprise – history, growth process, current situation.
- Farm(s) –size, location, business structure, mgmt & governance structure,
- Outline of family structure – who is involved, who is not involved,
- Outline of entities used –eg trust, p/ship, co
- Who plays an integral role in the business, ie who should I be interviewing?
- Detail each stage of the growth process
- What influenced the decision to expand?
- How was that decision made?

Personal Information

- Age
- Education
- work exp
- learning type (use test)
- communication skills (self assessment)
- organisational skills (self assessment)
- Risk profile (self assessment)

Issues Surrounding Multiple Property Ownership – prompts.

- Employment of labour (often a totally new experience)
- The development/refinement of skills, such as large herd management, labour management, communication skills, and computer skills
- Decision making – how is this handled
- Governance structures
- Use of outside expertise
- Management structures
- The logistics of managing properties in multiple locations
- Systemisation of farming operations
- The transition from being 'hands on' to 'hands off'
- How to meet the differing needs of all family members, and managing the transition to the next generation
- The need to be more transparent in the use of management and strategic plans, and putting these plans in writing
- In a large operation, the transition from management to pure governance
- As the business grows, is the use of family members an advantage or a hindrance? Why/Why not?
- Is your business efficiently capturing the advantages of medium & large size businesses? eg economies of scale, specialist mgmt, efficient business mgmt, divisional managers, bulk purchasing, risk mgmt, own R&D, own financial & HR dept,
- Effects of Stress & Lifestyle
- Ability of rural suppliers to handle multiple property ownership
- Other case studies?

Appendix 2: Data Coding Summary

Dissertation:
Interview analysis

	Personal Attributes					**Firm Attributes**					
Int #	Age	Education	Comm. Skills	Organisational Skills	Risk Profile	No of farms	Geographic spread	Entity structures	Mgmt (& staff) structures	Governance structures	Family involvement
					(my assmt)						
1	30's	FBM	Ex	Ex	Med	3	Small	Co,trust	mgr, losm		nil
2	30's	Massey	Av	Gd	Med	7	Small	Co	losm,mgr	no separation	nil
3	40's	Lincoln	Gd	Gd	Med	2	Small	Co,trust	mgr		nil
4	40's	Massey	Ex	Ex	Med	4	Small	Co,trust	mgr, e/p		nil
5	40's	-	Av	Gd	Med	2	Small	p/s, co	mgr		nil
6	40's	Massey	Ex	Ex	Med	4	Small	Co,trust	losm,mgr	no separation	nil
7	50's	-	Gd	Ex	Med	9	Large	Equity p/s	eq. mgr	board	nil
8	40's	-	Av	Gd	Med	2	Small	p/s, co	mgr	no separation	nil
9	50-60's	-	Av	Av	High	14	Large	Co,trust	mgr, losm	no separation	some
10	-	-	Gd	Gd	Med	12	Small	inc	mgr, 50:50	board	nil

Int #	**Emergent Issues** Staff mgmt	making transition from hands on to hands off	governance vs mgmt	more paperwork	having enough equity to expand	expansion of operation is reducing enjoyment	lower performance	lack of systems	economies of scale	enough time to spend on strategic planning	ability of suppliers to handle multiple properties	use of technology to ease mgmt
1	y	Y			y			partially	y	y?	?	y
2	y		y	y		y		partially	y	n	?	
3	y	Y		y		y	y	y	y	n	y	
4	y	Y	y	y				partially	y	n	y	y
5	y									y		
6	y	N	y	y	y	n	n	n		n	y	y
7	n		y	y			n	n	y	y	n	y
8	y	Y		y	y	y	n	y	minimal	n		n
9	y	Y	y	y		n	y	y	y	n	y	n
10	y	N		y			y	y	y		y	y