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Who makes the decisions on New Zealand farms?

To work with farmers in improving their decision-making and financial situation it is important to have information about the on-farm help used in making farm decisions, as well as the off-farm help which farmers use. To understand the situation better, a nationwide survey was conducted over the latter half of 2013. Starting in June, survey schedules were mailed to over 2,000 randomly selected farmers throughout New Zealand. Over 800 satisfactory replies were received giving a response rate of 36.1 per cent.

The sample was selected from regions, farm types and farm size with the intention of surveying full-time farmers. Responses from part-time operations were discarded. The farm details were compared with the national statistics to ensure the sample was representative and the differences were minimal. The financial arrangements of the farm managers and horticultural property managers in the replying sample are shown in the table.

Despite comments in the agricultural media, most farms are managed by traditional farmers either as sole traders or in partnerships, which leaves 14.5 per cent in various other arrangements. The remaining sections consider the amount of professional help farmers use in their decision-making overall and according to the farm types, as well as on other categories. Expenditure made in purchasing advice is also listed.

Short-term, strategic and long-term planning arrangements are all also provided to help make decisions. Finally, summary data on the use of formal boards of directors and advisory committees is provided. The

conclusion provides an overview as well as the return farmers receive from their investment in consultants.

Management arrangements – percentage of the sample falling into a range of categories

| | |
|--|------|
| Paid manager with no financial interest in the farm | 1.70 |
| Paid manager with some financial interest in the farm | 5.70 |
| In a partnership and receive a share of the profits but no salary | 44.1 |
| In a partnership and receive a share of the profits and a fixed salary | 12.8 |
| Receive profits but no salary and not in a partnership | 28.6 |
| Sharemilker with some ownership of assets and receive profit share | 1.50 |
| Sharemilker with little ownership of assets but receive a share of profits | 0.20 |
| Other or missing | 5.30 |

Sources and quantity of professional help

Not all farmers use professional consultants, but those who employ assistance use them for quite a wide range of hours each year. The table below provides the details of the use of consultants, as well as a range of other professionals, although the trusted person is often not a professional. In the question on assistance the farmers were given the possibility of nominating 'other' and most talked about a relative or friend. These are listed under trusted person. The data covers a range of assistance because the question asked the farmer to give the hours spent on their affairs. Some personal problems could be included but later tables are restricted to just farm matters.

Use of mainly professional help – percentage using the stated number of hours each year for discussions on 'your affairs'

| Annual use hour ranges | Farm consultant | Accountant | Lawyer | Business consultant | Banker | Company representative | Trusted person |
|------------------------|-----------------|-------------|-------------|---------------------|-------------|------------------------|----------------|
| 0 to 10 | 52.3 | 89.3 | 97.8 | 85.7 | 87.5 | 62.5 | 25.9 |
| 11 to 20 | 18.3 | 8.0 | 1.1 | 3.6 | 9.4 | 25.0 | 22.2 |
| 21 to 30 | 10.4 | 1.0 | 0.0 | 4.7 | 0.0 | 6.3 | 7.5 |
| 31 to 40 | 7.5 | 1.0 | 0.5 | 1.2 | 0.0 | 0.0 | 7.4 |
| 41 to 50 | 4.7 | 0.7 | 0.0 | 1.4 | 0.0 | 6.2 | 18.5 |
| 51 to 60 | 0.7 | 0.0 | 0.0 | 1.2 | 0.0 | 0.0 | 3.7 |
| 61 to 70 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 71 to 80 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 81 to 90 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 91 to 100 | 2.1 | 0.0 | 0.6 | 1.2 | 3.1 | 0.0 | 3.7 |
| over 100 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.1 |
| Average | 20.74 | 5.68 | 2.95 | 7.64 | 8.75 | 13.56 | 50.59 |

Most farmers use professional help sparingly. The last row in the table gives the average hours each year with the trusted person category being significantly more than the others. However, 11 per cent use over 100 hours a year which increases this average significantly. It is probable that help from, for example, a retired father living on the farm and some spouses would be in this category. The next most used professional is the farm consultant, but most farmers only use a small number of hours – 52 per cent using fewer than 10 hours a year. The users of 50 hours or more make up 6.8 per cent of farmers.

Following on are the company representatives with an average of 13.6 hours a year. This use of what would mainly be well-trained specialists is quite common in many parts of the world, according to international data. Many become trusted advisors.

The use of professionals does vary according to farm type. The next table provides a breakdown of the average hours used each year. Dairy farms are relatively heavy users of farm consultants, but cropping farmers use more. Sheep farms, and in particular horticulture, are also heavy users. When it comes to accountant, lawyer and banker use the levels do not vary much except for cash cropping, whose managers clearly have many banking concerns

Use of various advisor types according to farm type – average hours each year

| Farm type | Farm consultant | Accountant | Lawyer | Business consultant | Banker | Company representative | Trusted person |
|----------------|-----------------|------------|--------|---------------------|--------|------------------------|----------------|
| Sheep | 17.33 | 5.94 | 3.93 | 8.93 | 5.10 | 9.33 | 54.86 |
| Sheep/beef | 13.06 | 5.08 | 1.67 | 5.31 | 7.67 | 18.14 | 64.17 |
| Deer | 4.00 | 9.00 | 10.00 | N/A | N/A | N/A | N/A |
| Cattle | 8.92 | 3.87 | 2.68 | 2.20 | 1.12 | 20.00 | 60.00 |
| Dairy | 24.93 | 6.07 | 3.32 | 4.18 | 6.60 | 6.00 | 47.70 |
| Cash crop | 27.92 | 4.00 | 0.40 | 31.17 | 53.00 | 20.00 | 25.00 |
| Hort and other | 22.46 | 7.11 | 2.33 | 11.75 | 3.39 | 1.55 | 8.63 |

Where the term not applicable is used it usually means no answer has been provided or there are no farmers in the category. It is to be expected that the use of professionals would vary with the size of the farm and the age of the farmer. The next tables provide this information.

Use of various advisor types on farm advice according to net asset investment – average hours each year

| Asset range in dollars | Farm consultant | Accountant | Lawyer | Business consultant | Banker | Company representative | Trusted person |
|------------------------|-----------------|------------|--------|---------------------|--------|------------------------|----------------|
| under \$5 million | 15.64 | 4.95 | 1.91 | 6.86 | 5.70 | 13.67 | 64.92 |
| \$5 to \$10 million | 21.84 | 6.67 | 3.33 | 11.06 | 21.57 | 12.67 | 62.33 |
| \$10 to \$15 million | 30.74 | 6.62 | 3.00 | 5.83 | 6.00 | 15.00 | 37.00 |
| \$15 to \$20 million | 28.86 | 11.50 | 1.50 | 15.75 | N/A | N/A | 40.00 |
| \$20 to \$25 million | 76.67 | 10.50 | 20.00 | 10.00 | N/A | N/A | 10.00 |
| over \$25 million | 79.43 | 10.20 | 22.40 | 6.67 | 1.00 | N/A | 5.00 |

Other than for trusted persons, and possibly for the business consultant, banker and company representative categories, the use of professionals tends to increase with the net asset size of the business. However, when it comes to the effect of age, consultant use tends to decline with greater age as would be expected, but there is not much change in accountant use.

On the other hand, there tends to be a slight increase in lawyer use with age, due probably for succession matters to be dealt with. In addition the younger managers use bankers more as they arrange purchases and loans as well as ownership matters. Business consultant use is significant, and probably relates to off-farm investments. Older farmers make greater use of business consultants than their younger colleagues.

Use of various advisor types on farm advice according to age of farmers – average hours each year

| Age range years | Farm consultant | Accountant | Lawyer | Business consultant | Banker | Company representative | Trusted person |
|-----------------|-----------------|------------|--------|---------------------|--------|------------------------|----------------|
| 26 to 35 | 41.82 | 5.56 | 1.80 | 0.0 | 52.5 | 10.00 | N/A |
| 36 to 45 | 24.26 | 5.12 | 1.39 | 9.50 | 4.25 | 28.33 | 55.00 |
| 46 to 55 | 17.02 | 6.30 | 3.26 | 9.35 | 6.04 | 8.20 | 28.57 |
| 56 to 65 | 21.09 | 5.50 | 2.83 | 4.47 | 6.32 | 10.67 | 74.25 |
| over 65 | 21.68 | 4.90 | 3.58 | 11.83 | 4.00 | 13.00 | 27.50 |

Who makes the decisions?

As well as looking for outside advice, farmers also use a range of support systems to help in their decisions. The questionnaire split the decisions into long and short-term ones as it was thought there might be differences. For long-term and strategic decisions, the next table gives the percentage of farmers relying on the sources listed and also the percentage who rely on just their own resources.

In the questionnaire the farmers were asked to rate sources of help on a one to five scale. One represented that it was 'true' that they used the help, whereas five meant they did not use the source. To summarise the data, the percentage of farmers rating a source one or two, indicating the question is mainly true, was calculated to give the table results. The columns have abbreviated names with the meanings shown below –

- 'Make all' means they make all decisions but with advice from family, friends or colleagues
- 'Confer' means they frequently confer and take advice from a professional consultant
- 'Partnership' means that as a partnership we make most decisions
- 'Sole decider' means they make decisions without discussions with others
- 'Trustees' means a farm is owned at least in part by a trust and you consult the trustees.

Percentage of farmers in each category in decisions and assistance provided for strategic and long-term policy by net investment level and scoring each category between 1 true that assistance provided and 5 not true

| Asset range dollars | Make all | Confer | Partnership | Sole decider | Trustees |
|---------------------|----------|--------|-------------|--------------|----------|
| under \$10 million | 78.01 | 35.34 | 55.17 | 61.32 | 27.86 |
| over \$10 million | 59.68 | 53.97 | 62.29 | 30.51 | 36.07 |
| over \$15 million | 53.57 | 62.07 | 55.17 | 25.93 | 28.57 |

The columns and rows do not add to 100 per cent as there are some cross-overs. Use of the trustees is relatively stable across farm sizes as are the partnership discussions.

To relate this information to farm type, the next table was created in which the average scores are provided. The last row gives the percentage of farmers rating the source one or two on the five-point scale – they make serious use of the source of assistance.

Degree of farmer involvement in decisions and assistance provided by farm type – a scale of 1 means true to 5 not true

| Farm type | Make all | Confer | Partnership | Sole decider | Trustees |
|--|--------------|--------------|--------------|--------------|--------------|
| Sheep – intensive | 1.84 | 3.35 | 2.76 | 2.45 | 3.69 |
| Cattle | 1.83 | 3.71 | 2.61 | 2.03 | 3.94 |
| Sheep and beef | 1.78 | 3.52 | 3.02 | 2.43 | 3.64 |
| Cropping | 1.96 | 2.46 | 3.22 | 2.28 | 3.35 |
| Dairy | 2.09 | 2.62 | 2.34 | 2.80 | 3.55 |
| Deer | 1.71 | 3.57 | 2.86 | 2.29 | 3.57 |
| Other livestock | 2.00 | 3.33 | 1.33 | 1.67 | 4.00 |
| Flowers or ornamental | 2.67 | 4.67 | 3.00 | 2.67 | 5.00 |
| Vegetables | 2.22 | 3.50 | 2.50 | 2.86 | 4.71 |
| Fruit and viticulture | 1.79 | 3.02 | 2.18 | 2.07 | 3.32 |
| Other | 1.80 | 2.50 | 2.41 | 2.53 | 4.19 |
| Column average | 1.92 | 3.11 | 2.62 | 2.49 | 3.68 |
| Per cent with score less than 2 | 74.87 | 37.42 | 55.56 | 58.53 | 29.37 |

The importance of decisions across all farm types is reinforced by most ratings in the first column being less than two, and the ‘sole decider’ column is not much higher with an average of 2.49. The ‘confer’ column is much higher, reflecting that farmers do not confer much with others, and this applies across farm types. Overall, there are few distinctions between farm types.

When it comes to short-term decisions there does appear to be more significant differences across farm types, at least in some cases as shown in the next table. Some of the horticultural properties seem to rely more on themselves, but there are exceptions. However, overall the differences between the farm type and farm size data is not major.

Degree of farmer involvement in decisions and assistance provided for tactical or short-term questions by farm type – rating on a scale of 1 true that assistance is provided to 5 not true

| Farm type | Make all | Confer | Partnership | Sole decider | Trustees |
|--|--------------|--------------|--------------|--------------|--------------|
| Sheep – specialised | 2.00 | 3.02 | 2.83 | 2.73 | 3.89 |
| Beef cattle | 2.09 | 3.49 | 2.60 | 2.46 | 4.16 |
| Sheep/beef | 2.04 | 3.20 | 3.02 | 2.52 | 3.87 |
| Cropping | 2.07 | 2.27 | 3.21 | 2.64 | 4.35 |
| Dairy | 2.48 | 2.55 | 2.35 | 3.31 | 3.62 |
| Deer | 1.43 | 2.86 | 2.86 | 1.86 | 3.71 |
| Other livestock | 2.33 | 2.00 | 1.67 | 2.67 | 3.67 |
| Flowers/ornamental | 3.67 | 5.00 | 3.75 | 2.67 | 5.00 |
| Vegetables | 1.83 | 4.17 | 1.86 | 4.33 | 4.71 |
| Fruit and viticulture | 1.89 | 2.64 | 2.46 | 2.71 | 3.61 |
| Other | 2.06 | 2.78 | 2.48 | 2.90 | 4.17 |
| Column average | 2.17 | 2.92 | 2.64 | 2.86 | 3.85 |
| Per cent with score less than 2 | 68.19 | 45.37 | 54.43 | 48.41 | 24.01 |

Percentage of farmers in decisions and assistance provided for tactical or short-term questions including day-to-day decisions by net investment level and scoring each category on a scale of 1 true that assistance provided to 5 not true

| Asset range dollars | Make all | Confer | Partnership | Sole decider | Trustees |
|-------------------------|----------|--------|-------------|--------------|----------|
| under 10 million | 69.13 | 45.33 | 54.41 | 50.94 | 23.23 |
| over 10 million | 53.22 | 52.45 | 50.00 | 20.69 | 30.36 |
| over 15 million | 55.17 | 60.71 | 46.15 | 22.22 | 20.00 |

Other forms of help

In recent times there has been talk of using formal boards and advisory committees to help with the more strategic questions. The next table gives the percentage of farms of various sizes which use this form of assistance. For the smaller farms, little use is made of boards as might be expected, but rather more have committees. This tends to reverse as farm investment increases, but is still generally minimal except for the very large farms, of which there are few.

Percentage of farms with a formal board or an advisory committee according to their net asset range

| Asset range dollars | Per cent with board | Per cent with committee |
|-----------------------------|---------------------|-------------------------|
| under \$5 million | 1.74 | 5.04 |
| \$5 to \$10 million | 3.97 | 6.35 |
| \$10 to \$15 million | 14.71 | 11.76 |
| \$15 to \$20 million | 16.67 | 8.33 |
| \$20 to \$25 million | 50.00 | 0.0 |
| over \$25 million | 36.37 | 0.0 |

The next table reflects the reasonable trust farmers have in their advisors, at 56 per cent, but 27 per cent are not sure, and 10 per cent are quite dubious about their advisors or potential advisors. The numbers using consultants to a serious degree is less than 56 per cent, so potentially there should be a significant demand currently lying dormant. The table also shows that 52 per cent believe they need help in making risk decisions, but 26 per cent believe they do not need help in controlling risk. This is more than the percentage having little trust in advisors.

Farmers' views of the trust they have in advisors and their need to request help from others in controlling risk. Percentage of farmers scoring on a 1 to 5 scale whether they have trust in advisors 1=complete trust, 5=no trust in advisors

| Score on degree of belief | Trust in advisors | Need others to control risk |
|---------------------------|-------------------|-----------------------------|
| 1 | 27.3 | 28.7 |
| 2 | 28.8 | 23.4 |
| 3 | 27.3 | 21.7 |
| 4 | 7.2 | 11.6 |
| 5 | 9.4 | 14.5 |
| Average score | 2.42 | 2.59 |

In the next table the reported mean expenditure on consultants is most important in dairy farming, followed by extensive sheep and cattle farming. But the greatest expenditure is from cash cropping farms. These are mean figures. Therefore as many farmers do not employ a consultant at all, the expenditure on consultants by employing farmers is much higher.

Expenditure on decision help by farm type and net investment

| Farm type | Mean expenses dollars | Asset range dollars | Mean expenses dollars |
|-----------------------|-----------------------|----------------------------|-----------------------|
| Sheep – intensive | 1,407.91 | less than 5 million | 1,327.72 |
| Sheep and cattle | 2,686.73 | 5 to 10 million | 3,806.12 |
| Deer | 0.00 | 10 to 15 million | 6,361.76 |
| Cattle | 635.33 | 15 to 20 million | 13,300.33 |
| Dairying | 4,237.81 | 20 to 25 million | 5,133.33 |
| Other animal | 1,200.00 | over 25 million | 17,725.00 |
| Fruit and viticulture | 1,649.90 | | |
| Cash crop | 5,818.18 | | |
| Flowers/ornamental | 0.00 | | |
| Vegetable | 0.00 | | |
| Other | 1,481.25 | | |

Conclusions

Obtaining help with decisions is very important for many farmers, but the majority do not invest in consultants. Presumably they do not believe it would be economic to use paid advisors beyond what is legally required. However, a statistical analysis of the data makes it clear that more farmers should be looking for paid assistance. Analysis shows that, on average, farmers obtain a return of approximately four dollars for each dollar spent on consultants, relative to people not employing consultants. Some, of course, would not receive this level of return but others would get more.

While the return will decline as more is spent on advice, the figure is still impressive. The range was from near zero to over \$40 per dollar invested depending on the farm. In reality farmers already making a big investment in consultants will obtain a smaller return at the outer margin.

The figures also reinforce the fact that the majority of farmers still rely on their own resources for making most decisions, although no doubt many make use of publicly available information. Industry-funded extension systems are also important, although they do not commonly provide one-on-one written reports and advice. The data available does not show just how much advice comes from these areas. It is also clear that farmers do help each other quite significantly in their various associations.

This report does not take into account farmer objectives when commenting on the low level of consultant use. In some cases farmers will be content with their current workload and output, and feel no need for professional help. In such cases, however, they may be able to maintain output with lower work and expenditure following professional help and advice.

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