

GRDC Regional Cropping Solutions Network Final Report

ENG00001 Transitioning Family Farming Businesses

Report prepared by:

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INTRODUCTION

The nature and scope of today's grain growing business is very different to the grain business of 20-years ago. Today's grain business has a turnover in excess of \$1.5m; greater seasonal variation due to climate change; a de-regulated grain market; and a more socially-connected society that does not relate to agricultural production. All of these factors mean that for the next generation entering into business management (those under 45) the business risks are far greater than they were for the previous generation.

Individual farm businesses have also changed over the previous 20 years. Most have doubled or quadrupled in land area, and to manage this they have larger and more machinery, more staff, and the need to manage a greater amount of seasonal debt. It is this mix of complexity in the farm business that makes an advisory board of management a useful tool for farm businesses to manage their strategic decisions.

Family businesses in other industry sectors successfully use boards of management (or advisory boards of management) to up-skill the next generation in the business' management. Boards of management provide a business with robust governance, management and reporting systems; structures that allow a business to function more effectively in its day-to-day operations and to grow strategically with less risk, than businesses without such support structures. Currently there are very few Australian grain production businesses using a board of management to provide strategic support to the business, despite the large number of varying company structures used for taxation and business transfer reasons. The advisory skills and on-going support to assist family businesses to implement a board of management is also lacking in the industry.

The Geraldton RCSN identified the need to improve farm business management skills in the next generation of grain growers (under 45). There are a variety of farm business workshops run by various organisations available to grain growers in the

region (including PinG), and GRDC Farm Business Updates were available to all grain growers again during the project period.

This project aimed to build upon these workshops and conferences, rather than to duplicate the activities. Farm advisory boards give farming businesses another tool that will build the confidence, skills and support for the target audience (those under 45) to move into the strategic management of the family farming business.

Advisory boards of management in general

An advisory board is usually made-up of all members of the farming business, plus key people with identified skills (or trusted advisors). An advisory board provides a farm business with an opportunity to host formal and regular meetings to guide farm management decisions. They provide a structured, disciplined platform to deal with production, financial and personal issues that need to be considered when running a farm business. They also provide a regular opportunity for communication between all business partners, and for the sharing of visions and goals as well as planning for the future.

Advisory boards of management allow businesses to manage risks by putting in-place a formal decision making process. This process allows the business to formally identify the key issues, research the options, and to discuss them before any business decision is made. It is important to remember that the day-to-day running of the farm business is likely not to change, as the board is not involved in this aspect of the farm. Only the strategic and risk management of the business will change.

Younger business managers feel more confident in their management of the business as all strategic decisions (the riskier farm decisions) have been made using the collective expertise of a board using good governance practices, rather than by them as individuals with individual bias. A board structure also allows the older generation to remain actively involved in the strategic direction of the business while the next generation (under 45) “learn the ropes” and become confident in managing the farm business as a whole.

For example, the decision to purchase a new farm, change enterprises, or invest in an agricultural business ‘in-town’ is made easier for the grain growing business because the board provides due-diligence to the decision. It uses all the skills in its board members to make the decision, and a board requires background research before approval, giving the grain growing business more confidence in the final decision.

EXECUTIVE SUMMARY

Boards of management are the key method of managing risk and business transfer through the generations in most other industries and businesses across Australia. The nature and scope of today's grains businesses means that farm advisory boards could be an important tool in managing business risk, improving decision making on-farm, and transferring the business between generations.

The next generation entering WA grains businesses today are entering a different business to those that the previous generation entered in the 1970s. The businesses are bigger in size; there is a greater turn-over; more staff; a de-regulated grain market; and greater machinery replacement costs. All of these risks need to be managed to ensure the long-term success of the business. A farm advisory board provides the forum for this to occur.

A farm advisory board is a group of six to eight people who get together regularly to strategically manage a farm business. It is generally made-up of members of the farming family plus one or two key, trusted advisors. Farm advisory boards provide a structured process for farm families to discuss key business management decisions.

The "Transitioning Family Farming Businesses" project spent 6-months looking at the use of farm advisory boards in the WA grains industry through a series of different activities. The project team facilitated a forum discussing where the industry is now, and the benefits and challenges of implementing farm advisory boards; they interviewed farm businesses with farm advisory boards (and some who were looking at implementing a farm board), and industry advisors available to support farm businesses with their advisory boards. As a result the project has produced two fact sheets on establishing farm boards, one case study, undertaken various media interviews and delivered presentations across WA on the topic.

The project has identified three key stakeholder groups. Each of these groups requires specialist capacity building activities into the future. These groups are:

1. Farm businesses already using farm advisory boards
2. Farm businesses wishing to establish farm advisory boards
3. Advisors (including farm management consultants, accountants, bank managers and financial advisors) keen to support farm businesses with the establishment and management of their farm advisory board.

Each of these three stakeholder groups requires specific capacity building activities. This includes the establishment of a 'boards network' to support the on-going use and development of farm advisory boards; 'introductory' workshops for those businesses wishing to implement a farm advisory board; and on-going advisor training to ensure continued industry support of the tool.

OBJECTIVES

The *Transitioning Family Farming Businesses* project proposed to facilitate a discussion in the WA grains industry regarding its future industry development requirements around the establishment of farm advisory boards. It did this through the delivery of:

- Needs analysis of the Australian grains industry regarding the development of farm advisory boards using leading farmers and key industry stakeholders in;
 - a series of in-depth interviews, and
 - an industry forum.
- Develop an outline of a training programme that, once developed, will support grain businesses in their implementation of an advisory board of management.
- Develop fact sheets regarding the establishment of farm advisory boards.
- Provide an opportunity for members of the project team to participate with other leading businesses at a national level through;
 - Participation in the National Farm Advisory Board Forum, and
 - Participation in the Family Business Australia “Family Business Directors Course”.
- Delivery of information on the establishment of farm boards at identified industry conferences and field days.

METHODOLOGY & RESULTS

<p>RCSN project METHODOLOGY as proposed in the consultancy agreement</p>	<p>Proposed outcomes of the activity as proposed in the consultancy agreement</p>	<p>Project RESULTS - including activity changes & justification</p>	<p>Project activity delivered & PROJECT OUTCOMES</p>
<p>Establishing a six member project development and delivery team in the northern grains region of WA.</p> <p>This will be made up of a mix of growers and grains industry representatives.</p>	<p>A project development team will be formed in WA to help design a training programme that meets the needs of the Australian grains industry in cooperation with the Australian Institute of Company Directors and other key stakeholders.</p> <p>This is seen as a critical step in the adaptation of the New Zealand Dairy Programme for the Australian grains industry.</p>	<p>Negotiations with Dairy NZ to use the 'Farm Business Governance Development Programme' in the WA grains industry failed early during the project as GRDC does not have a 'reciprocal arrangement' with Dairy NZ to share research and/or resources. This meant that the project was not able to use the Dairy NZ program, and instead needed to build its own program. This was discussed with GRDC in March, and it was agreed that the project would proceed using existing Australian resources.</p> <p>Due to the time limitations of the program, it was decided not to put together a project development team, but to use the collective knowledge of the industry to identify the weaknesses and opportunities of farm advisory boards in WA grains businesses, and also the future training and development needs of the industry. This was done through a one-day forum in Perth which</p>	<p>Delivery of the Farm Advisory Board Forum On Monday 25th May 2015 In Perth</p> <p>There were 15 attendees – 3 farmers, 5 consultants, 3 accountants, 2 project team members, 2 GRDC members.</p> <p>It is anticipated that should the project continue, the majority of this group of 15 would all be happy to become the project steering committee.</p> <p><i>See the full report in the report attachments</i></p>

		included input from 15 participants (rather than the proposed 6).	
Training as specialist deliverers of the Dairy NZ “Farm Business Governance Development Programme”	<p>Representatives from AgInnovate and Ag Consulting Co will travel to New Zealand to train as specialist facilitators of the Programme, and to participate in the first two days of a dairy Programme.</p> <p>It is only the <u>travel costs</u> of one facilitator that are included in this project budget. The time, and additional travel, for training will be met by AgInnovate and Ag Consulting Co.</p>	<p>There was a down-turn in the price of milk solids in the New Zealand dairy industry at the start of this project. As a result, DairyNZ has not delivered any training in the “Farm Business Governance Development Programme” during 2015.</p> <p>This was discussed with GRDC in March, and it was agreed that the project would proceed using existing Australian training resources instead.</p> <p>The project team have enrolled in the Family Business Australia 2-day training programme “Family Business Directors Course” in Melbourne in September.</p> <p>This two-day course covers:</p> <ul style="list-style-type: none"> • Understanding the unique challenges family business directors face • Understand the duties and responsibilities as a family business director • How to structure a board appropriate to suit the family business needs. 	<p>Attendance at the</p> <p>Family Business Directors Course</p> <p>Hosted by Family Business Australia</p> <p>16th & 17th September, Melbourne</p> <p>It is only the <u>travel & workshop costs</u> of one facilitator that have been included in the final project budget. The time, and additional travel, for training have been met by AgInnovate.</p> <p>By participating in this workshop, the project team (Jeanette and Danielle) will become familiar with how other family businesses implement advisory boards, and be able to adapt these tools and techniques into agriculture. There is also an opportunity for the project team to join with Family Business Australia and become deliverers of the FBA workshop in regional Australia.</p>

Interviewing leading farmers (already with farm boards in place) and key industry stakeholders to determine their needs for farm governance training/professional development in Australia.	In-depth interviews will be conducted with 4 grains businesses who have already established farm boards to determine industry needs and governance training requirements. In-depth interviews will also be conducted with 4 potential industry partners (such as accountancy firms, banks and farm management consultants) to determine what they see as industry needs in this area.	<p>Two farm boards were explored during the Farm Advisory Boards Forum (May), and a further two businesses were interviewed via phone to see how advisory boards have been used to transition the next generation into the farm business and to manage business risk.</p> <p>Two advisors spoke about their involvement on farm advisory boards at the Forum, and how the advisory industry can best support farming families in this area. A further two advisors were interviewed to determine their support needs, and to see what role they believe farm advisory boards will play in the WA grains industry.</p>	<p>Copies of these presentations and a summary of the interviews can be found in the report attachments.</p> <p>A case study on the Bowman Farming Board was completed and is attached for publication.</p> <p>A summary of the interviews is attached.</p>
Participation by two members of the project team in the National Farm Advisory Board Think-Tank.	Two representatives from the WA project development team will travel to Adelaide to participate in the National Farm Advisory Board Think-Tank on April 9, 2015.	<p>Danielle England and Susan Hall attended the National Farm Advisory Board Think-Tank in Adelaide on April 9, 2015.</p> <p>The Think-Tank was hosted to provide a national platform to explore the role and use of farm advisory boards nationally, and to explore the opportunities and challenges associated with their use in the industry. It provided some key recommendations for the industry as a whole, which included the need</p>	<p>A copy of the National Farm Advisory Board Think-Tank forum report is available for download from the Grain & Graze (Southern Region) website.</p>

		<p>for advisor training/upskilling, and created a network of interested farmers and consultants.</p> <p>The format for the WA forum was based on the National forum. This has given the Australian grains industry a good overview of the industry needs regarding the implementation and use of farm advisory boards. This includes the opportunity to streamline advisor and producer training and implementation support (eg 'how to start a farm advisory board').</p>	
<p>Development of an outline for a farm board (governance) training programme that could be developed for the Australian grains industry.</p>	<p>The Australian grains industry has an understanding of its corporate governance training needs, the networks in place to provide for training programme development, and an outline of such a programme</p>	<p>Both the National and WA Farm Advisory Boards forums provided a comprehensive list of skills and outcomes for any future farm board (governance) training. These recommendations have been compiled into an outline of three, two-day workshops.</p> <p>The workshops would be structured:</p> <ol style="list-style-type: none"> 1. Establishing a Farm Advisory Board – suited to those businesses who are thinking about establishing a board, or those in the initial stages of implementation. 2. Managing a Farm Advisory Boards – suited to those who have recently 	<p>Please see the “Managing your business with a Farm Advisory Board” training program outlined in the Appendix.</p>

		<p>established a Farm Advisory Board, but who want to know more.</p> <p>3. Farm Advisory Boards Executive Program – a forum for businesses experienced in the use of Farm Advisory Boards. It would be a mix of specific skills development as well as individual business planning and networking.</p>	
Extension and communication activities	<p>The results from the in-depth interviews and scoping study will be extended to the WA grains industry via;</p> <ul style="list-style-type: none"> • Presentations to each of the RCSN committees • Presentations to the 2016 Business Updates • A series of two information sheets on “farm boards for the WA grains industry” available for distribution. • Contribution to the Grain & Graze ‘risk 		<p>Communication products developed:</p> <ul style="list-style-type: none"> • Bowman case study • Fact Sheet 1 – “What is a farm advisory board?” • Fact Sheet 2 – “Setting-up a farm advisory board” <p>Project presentations delivered:</p> <ul style="list-style-type: none"> • SEPWA women’s day (31/7/2015) presented by Danielle England (AgInnovate) • Grain & Graze National Farm Business Risk Forum (17/8/2015) presented by Danielle England (AgInnovate) and Bill Long (Ag Consulting Co) • Geraldton Zone RCSN, project update (14/8/2015) presented by Danielle

	<p>forum' planned for late 2015.</p> <ul style="list-style-type: none"> Development of the project report for consideration by the Western panel on the results of the scoping study <p>The purpose of these activities will be to create a discussion within the industry as to its future industry development requirements regarding the establishment of farm advisory boards.</p>		<p>England (AgInnovate)</p> <ul style="list-style-type: none"> Geraldton Zone RCSN, Open Forum (13/8/2015), presented by Cameron Weeks (Planfarm) <p>Other industry communication products created as a result of the project:</p> <ul style="list-style-type: none"> Planfarm newsletter article – “Farm Advisory Boards” (June 2015) ABC Rural Radio morning broadcast, interview with Danielle England (10/8/2015) Ag Consulting Co Facebook posts
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DISCUSSION OF RESULTS

The *Transitioning Family Farming Businesses* project has started the discussion in the WA grains industry regarding the use and establishment of farm advisory boards. The mixture of the forums, industry presentations and subsequent media coverage have meant that farm businesses are now exploring the use of farm advisory boards within their business. They do need support to implement them. The advisory community has also begun to promote advisory boards to their clients, and have recognised that they need specific skills development in this area.

The in-depth interviews and forum outcomes clearly show that the top challenges for the use of farm advisory boards by farming family businesses in the WA grains industry are:

- Fear of the unknown and getting buy-in from all members of the farming business
- Finding the right people for the board. Especially trained, independent chairs.

It has also shown that the top benefits for the use of farm advisory boards by farming family businesses in the WA grains industry are:

- Planned, strategic business improvement
- An 'agreed' 'big picture'/strategic direction for the business from all family members

The interviews showed that farming families consider farm advisory boards a good tool to assist them in taking regular time to talk about the strategic direction of their business, and to separate out the strategic decisions from the operational aspects of the farming business.

Key support is required by farming business in the establishment of the advisory board. There was an identified need for information on board structure, director remuneration and meeting processes, to name a few.

The role of the independent chair was highlighted as the critical success factor in the successful establishment and maintenance of a farm advisory board. Concerns were raised by both advisors and growers about the lack of skills in this area within the industry. (These skills are listed in the Forum report.) It was recognised that an independent chair had very specialist skills, skills that were in short supply in the industry.

The conclusions from the Forum participants' clearly outlined what each sector of the WA grains industry considered to be their priorities regarding the development of farm advisory boards in the industry. These views were replicated at the National Forum, in each interview that was undertaken, and from feedback on each presentation. When asked what the "one thing you will do to progress today's discussion", the general responses were the same. Following is a summary of the comments from the WA Forum:

Advisors

- “I have a couple of clients that I know would be interested and benefit from a board. I now feel comfortable just giving them a ring and talking about the concept.”
- “I thought I was coming here today to see what was in the project, and what might be available for the industry generally from this project. I now realise farm boards have enormous benefit for me, my clients (and my business).”
- “I want to work with the AAAC (network) and offer the AIACD one-day Introduction to Boards workshops to farm management consultants.”

Grain growers

- “It was good to meet-up with other farm businesses with farm boards. I would like more of this in the future.”
- “An advisory board could have a fit in my business. What is my first step?”

Industry

- “I have got a meeting tomorrow to talk about the future possibilities for our business and industry.”

IMPLICATIONS

While the implementation process of a farm advisory board is going to be similar for each business, each farming family will define what they want to achieve from its advisory board. Discussions in the industry indicate that farm advisory boards are seen as a tool which can be used to help improve business and family communication, strategic planning and business transition between the generations.

Every generation of the farming industry has approached project team members regarding the implementation of an advisory board on-farm. The older generation are keen for a successful business transfer to the younger generation, siblings are looking for improved communication between family members, while others see the opportunity for more robust processes around strategic decision making (such as machinery replacement or capital investment).

Investment in upskilling key advisors to support the implementation and maintenance of farm advisory boards will improve the decision making, and risk management, strategies of the WA grains industry as a whole. It has been clearly identified in this project that there is a need to build the capacity and confidence of the advisory industry to deliver these services.

Boards of management are the primary tool for managing risk in every other industry and business outside agriculture. In an industry where the majority of business risks cannot be internally controlled (rainfall, interest rates, international markets), advisory boards allow farm families to put in place business structures that allow them to assess and plan for the different elements of business risk, and improve their strategic decision making processes.

RECOMMENDATIONS

A growing number of farm businesses are using, or evaluating the use of, farm advisory boards. Supporting these farm businesses in the maintenance or development of a farm advisory board provides the basis of the following recommendations.

Farm management consultants and other financial advisors (such as accountants, lawyers and financial advisors) recognise the benefit of such structures in farm businesses and are keen to support the industry to develop these skills. Up-skilling across the whole industry is required.

The project has identified three key stakeholder groups. Each of these groups requires specialist capacity building activities. These groups are:

1. Farm businesses with existing farm advisory boards
2. Farm businesses wishing to establish farm advisory boards
3. Advisors (including farm management consultants, accountants, bank managers and financial advisors) keen to support farm businesses with the establishment and management of their farm advisory board.

The following recommendations have been broken down into these three stakeholder groups.

Farm Businesses with existing farm advisory boards

- Develop a network of grain businesses with advisory boards already in place to share experiences and to continue to learn together. This should include regular opportunities for professional development (conferences, training days, etc) and email updates/newsletters.

Farm businesses wishing to establish farm advisory boards

- A series of “Introduction to Advisory Boards” workshops be held in each RCSN zone across WA during early 2016 to provide ‘how to’ information to farm businesses currently exploring the implementation of a farm advisory board. It should follow the same format of the forum (a mix of farmer and advisor presentations), with time provided for individual business planning around the key first steps.

The advisory community

- On-going, industry specific, training is made available for key advisors on the role of board chair. (This is to include the key skills of .) A minimum of two workshops annually over the next two years is required to meet the current demand from advisors and leading farmers.
- Support the advisor network (AAAC) in its investigation for Australian Institute of Company Directors and/or Family Business Australia training in the establishment

and management of family boards. This will provide the WA advisor network with some of the key directorship skills required.

General recommendations

- The industry should begin to work with specialist organisations such as the Australian Institute of Company Directors (AICD) and Family Business Australia to provide regionally available training.
- Continue to develop information sheets and meeting templates that provide support to farm businesses establishing an advisory board.

APPENDICES

1. Farm Advisory Board Forum Report (13 attendees)
2. Fact Sheet 1 – “What is a Farm Advisory Board?”
3. Fact Sheet 2 – “Setting-Up a Farm Advisory Board”
4. Bowman case study
5. “Managing your business with a Farm Advisory Board” training program outline
6. Interview summary
7. Planfarm newsletter
8. Danielle England’s presentation to the Geraldton Zone RCSN committee meeting – 12 attendees
9. Cameron Week’s presentation to the Geraldton Zone RCSN open meeting – 25 attendees
10. National Farm Business Risk Forum – 18 attendees

Plain English Summary

Project Title:	Transitioning Family Farming Businesses
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Objectives	<ul style="list-style-type: none"> To facilitate a discussion in the WA grains industry regarding its future industry development requirements in the establishment of farm advisory boards.
Background	The Geraldton Zone RCSN identified the need to improve farm business management skills in the next generation of grain growers (under 45). For the majority of other businesses outside agriculture (with a similar turnover and risk profile), boards of management are used to transition the next generation into business management. Boards of management, or advisory boards, provide a robust tool for managing the strategic direction of a business, and are a key risk management tool.
Research	<p>The project facilitated a Farm Boards Forum in Perth on 25th May 2015. This involved a mix of farmers (with boards) and key advisors. The purpose of the forum was to identify the benefits and challenges of implementing a farm advisory board, to clarify the role of the independent chair, and to identify the next-steps for the industry.</p> <p>The project team interviewed farm businesses with boards' in-place and advisors involved with families with farm advisory boards to determine the benefits and challenges.</p>
Outcomes	<p>As a result of the findings from these activities, two fact sheets and one case study have been completed, along with additional promotional activities to raise the awareness of farm advisory boards within the WA grains industry.</p> <p>Throughout this project, the general feedback from the industry has been that farm advisory boards have a large role to play in transitioning the next generation into WA grains businesses, in managing the risk of the business, and encouraging better strategic decision making processes. However there is a need to provide some industry development activities, especially around the up-skilling of key advisors, and practical support for grains businesses' in the establishment of farm advisory boards.</p>
Implications	The widespread adoption of farm advisory boards in Australian grains businesses would dramatically improve business risk management across the industry. It would provide a more professional approach to strategic decision making and provide a platform for the next generation to transition into the farming business, whilst utilising the experience and knowledge of the retiring generation.
Publications	<p>Fact Sheet 1 – "What is a farm advisory board?"</p> <p>Fact Sheet 2 – "Establishing a farm advisory board"</p> <p>Case Study 1 – Bowman farming</p>