



**Australian Nuffield Farming Scholars Association**

# **The Role of People in Expanding Agricultural Business**

**REPORT PREPARED IN 2003 BY**

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## Executive Summary

The topic of “The role of people in expanding agricultural business” came from a need to get the most out of my Nuffield study. I had to look at an issue which could give us the most benefit in our business in the long run. I realised that it was the people who were the key to us successfully expanding our farming business. My aim was to develop an understanding of how other farmers find, and then keep, good people in their businesses.

An additional area of interest, linked to the employment issue, is the means by which farmers can expand their enterprises in joint owned businesses. My focus here was on the people and the interaction issues relating to group owned businesses such as syndicates or equity partnerships. One of the characteristics of the group owned businesses is the way in which the people working within the business can share in the ownership. This tied in very well with the employment issues, as detailed below.

1. The issue of finding people to fill roles in agricultural management are the same all around the world. There is a negative perception of agriculture as a career path and this perception is probably justified given the lack of opportunity to advance past a certain point.
2. The ability of business owners to capitalise on their own skills is directly related to their willingness to hand over responsibility to other people. The people who have done this well have been able to expand their businesses to a large degree.
3. There are farm business owners who have identified the problem of the lack of career potential. These employers have gone to some lengths to build a business structure to allow their employees to advance and build business ownership.
4. Managing the employment process is much easier if a structured approach is used. The use of well constructed position descriptions is the key to getting the most from the people who work for you.
5. Success in group owned businesses is very much related to people issues and the setting of clear goals.

The information in this report has been gathered by interviewing a number of farmers, managers, human resource consultants, agricultural college staff and business owners outside agriculture.

# **Managing Human Resources within Agricultural Business**

## ***Introduction***

The ability of business operators to employ and effectively manage the people around them will have a huge impact on their success. The Australian agricultural industry is dominated by small, mainly family owned businesses which may only have a few staff. Because decisions regarding employing staff are not made very often, the level of experience and expertise to do this would appear to be less than satisfactory for the agricultural industry. Information gleaned from interviews conducted in this study point to the key to successful agricultural businesses being the people involved in the enterprise. It seems imperative therefore, that more attention is paid to the recruitment and support of appropriate employees.

This report is a result of interviews conducted with a number of employers who have been successful in their agricultural business. The number of employees in these businesses ranged from 1 to 150. Most of these employers identify the key to their businesses as the people they have around them.

The information contained in this report is organised to address the process an employer may use when assessing labour requirements, recruiting and selecting and then managing and motivating. Many of the issues discussed are interlinked and generally involve the key need for good communication.

Management of employees requires particular skills, as agriculture is quickly becoming more technical, and many jobs are now being out-sourced to contractors. This is creating the need for more tertiary educated staff with leadership and communication training. Ironically, I found that the number of people choosing to study agriculture at a tertiary level is declining dramatically. In the 19 years since I attended Lincoln University in New Zealand the number of Diploma of Agriculture students has dropped from 180 to 60. This trend was mirrored at University of Sydney Orange campus and Harper Adams in the UK. The recognition of the importance of management has led to this study being focussed more on the role of “middle managers” within the industry.

Most farmers, including myself, have shied away from a structured and formal employment process but the people I interviewed were convinced that it is the only way to ensure the best results from the difficult process of employing new staff.

## ***Labour Requirements***

### **Labour Efficiency, Benchmarking**

Labour efficiency on farms varies widely due to a number of factors. Enterprise scale is one of the main areas where labour efficiency is a problem. A large proportion of Australian farms do not have the numbers of livestock or area of crop to be able to fully utilise the available labour. Often there are other good reasons for having extra labour and this may well relate to balancing work with family time and the ability to have reasonable recreation time. The use of part time labour and shared workers is a very good way of improving labour efficiency.

Assessing the level of labour required can be done easily by comparing with industry best practise figures which are generally available. An example would be the extensive livestock industry benchmark of around 10 000 Dry Sheep Equivalents per labour unit. The inability to reach this level of efficiency may relate to inefficient management programs, inadequate infrastructure or not enough scale. There are producers who are exceeding this figure and still maintaining acceptable levels of animal husbandry. Using contractors can have a profound effect on the labour needs of a farm.

### **Contractors**

The push for increased profitability by reducing costs can be very quickly helped by increasing the role of external contractors in the business. The problem often exists that farmers can justify doing a job themselves by comparing the cash cost of the contractor with their cash cost. Generally the actual cost is a lot greater for the farmer, if the hidden and opportunity costs of machinery ownership and labour are taken into account. Contractors can maintain a lot higher efficiency of labour and machinery and their prices probably reflect the real cost of doing a job. The other advantages of using contractors are access to constantly improving technology, reduced full time labour, and freeing up of the manager's time.

An argument against using contractors is the risks associated with timeliness. The important thing is to do an economic risk analysis of not being able to perform a task on time. Generally the perceived risk is far greater than the prospect of actually losing money.

The ability of farmers to run good businesses, with most of their work contracted out, relies on the relationship that is built up between both parties. A high level of communication is paramount both to getting a good job done and on time. Most good managers understand that contractors need to be making money as well.

A contractor I visited in New Zealand suggested that he was successful because he was not willing to sell his business on price, but on quality of service. He preferred working with farmers who appreciated the real cost of doing a job and who were happy to pay for good service.

He also emphasised that farmers must take on the role of managing the job even if it was being done by a contractor. Every farmer wants the job done differently and unless the operator is aware of the farmers needs, they will be unable to provide the best service. In some ways they need to give the same supervision they would to a new employee in relation to how they want the job done.

## **Skilled staff vs. Unskilled**

Agriculture is moving ahead in technology at a fast rate. To maintain efficiency and drive productivity increases, farm businesses need to be constantly monitoring and assessing production. For example, on farm fibre diameter testing, soil moisture monitoring, plant nitrogen level measuring and water quality testing are only a few of the areas where skilled operators are necessary. Not only for testing, but more importantly, interpreting the results. This is along with the large increase in computer controlled plant and machinery which has created the need within the industry for more technical expertise and less unskilled labour. The use of contractors with more efficient machinery and the rapidly expanding role of computers should mean that farms can now be run with fewer staff, who have higher skill levels.

Today staff need to be equipped with the capability to communicate well with contractors, manage people and be involved in planning and implementing strategic direction as well as having the required technical skills.

### **Key Points**

- **Benchmark current labour resources against industry best practice**
- **Investigate the possibility of outsourcing work**
- **Develop good relationships and communication with contractors.**
- **Reduce unskilled labour requirements and increase skilled staff resources.**

## **Recruitment & Selection**

The information in this section is mainly about the importance of making the recruitment and selection process more structured and objective. While the general agricultural approach is to use gut feeling, using a structured process will not only increase the chances of finding the right person, but greatly improve the on going management of that position. The important part of the structured process is that each part links together and relates back to the job description which must be seen as the central document.

### **Job design**

To be able to effectively employ someone there must be a very good understanding of the employment objectives. The employer has to define how the person is going to fit into the business and what levels of responsibility they will have. From this, a working job description and a list of the main competencies required can be developed to help find the right person, and manage their career in the future.

### **Position description**

The position description is the key document when employing any staff and should be very well defined prior to recruiting staff. The document is also important in helping both the employee and employer in the future for appraisals and clearly setting what is required of the staff member.

The description should include:

- A position title
- The position's relationship with the other people in the business
- The purpose of the position
- A list of duties and responsibilities
- The level of responsibility
- Detail of the organisation's values
- The position conditions such as remuneration, work hours, housing, etc.

Ideally the position description should be an integral part of a business plan. There should be a link between the goals of the business and the duties and responsibilities in the position description. (Figure 1.) The development of key performance indicators (KPI's) for staff can then be linked into the business KPI's. The idea is for the employee to have a very good understanding of where they fit into the business and what they are trying to achieve. The business plan should include a set of values, which may relate to safety, teamwork, communication, integrity and developing people. These values should also be part of the position description and can also be assessed in the appraisal process.

The position description should be a working document which is reviewed at least annually, in consultation with the employee. This is particularly important in small business, where staff positions are not as clearly defined as they would be in a large organisation. Quite often a person's role may be evolving as they gain experience or prove their ability to handle increasing levels of responsibility. The job description is

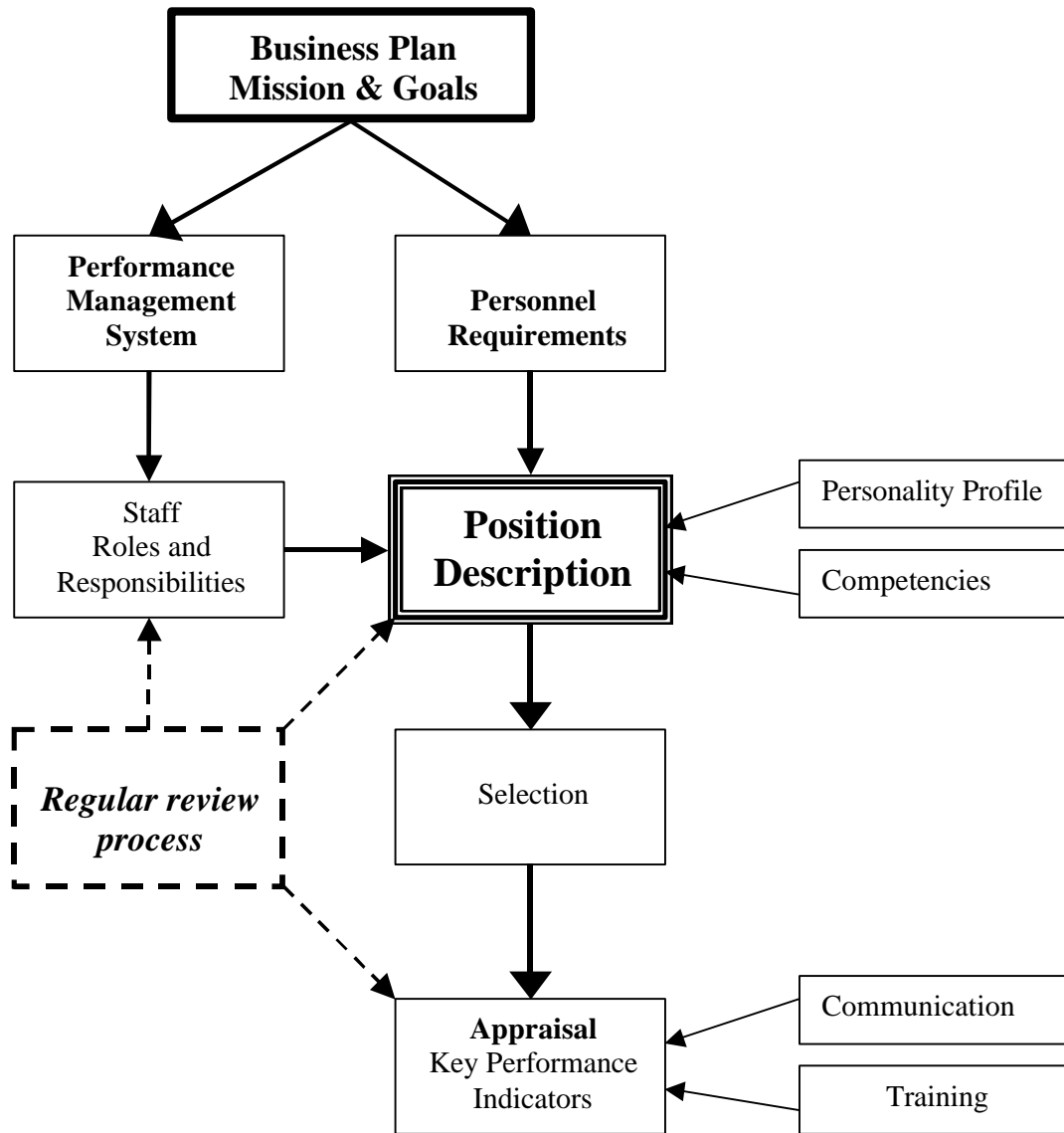
also a very important tool in assessing the employee on an on-going basis as well as that person being able to deliver the best results for the business.

The more people I talked to, the more I realised the importance of the position description. As well as giving the employee direction, a well planned appraisal process with a set of measurable criteria is important for the allocation of any bonus pay. Using this system the employee is aware of the requirements to achieve a bonus

Another big advantage of a written position description is in the handling of dismissal of staff. Today it is increasingly difficult to dismiss staff without very good grounds for doing so. Having a detailed position description and more objective assessment criteria gives the employer a far better case for dismissal. The whole process can be documented and handled in a far less emotional way.

Figure 1.

**The position description and related processes**





## **Specifying the person for the position**

A profile of the person most suited to a position should be attached to the position description. Most of the employers interviewed prefer to enlist younger people, and provided the following comments in relation this:

- They have no baggage of entrenched ideas
- It provides opportunities for people who are on their way up.
- The employers were happy to take people on for only a couple of years.
- Generally they are ambitious and have a greater desire to achieve.
- They provide fresh knowledge and energy to the business.

The general feeling was that the employers wanted to share their success with their employees. This issue is an important part of motivational factors discussed later.

A number of different personality assessment tests exist and are available from human resource consultants. While some of these methods may seem expensive, the long term benefit of finding the right person for your business, should cover the cost in a very short time. Along with assessment tests the employer should develop a list of competencies that they will use to assess the prospective people.

## **Competencies**

A list of all the things that the prospective employee should be competent in is an important document for the selection process. The list should cover all the aspects in the position description. For example, if one of the tasks in the position description involves supervising other employees, the competency list should include leadership ability and communication. If the task is to operate a complex piece of equipment the list should include technical ability. Competencies are basically the skills that the person should have to be able to meet the needs of the employer.

The person's level of ability in that competency can then be assessed. For example one competency may be teamwork. The prospective employee must display in the interview process that they have the ability to be a team player. Once the competencies required are listed then a weighting can be put on each one. If a requirement is driving a tractor, then there may be a low weighting on that competency if there is a high weighting on the persons ability to learn new tasks.

## **Finding the right people**

This is the hardest part of the whole process and probably the part with the least answers. Most of the employers interviewed said they preferred to have young people and those with some form of training. Against with this there is a big reduction in the number of people making agriculture a career path.

Some of the points which came out of discussion with employers were:

- The agricultural colleges and universities are a good source of people. A letter requesting students to work either during holidays or full time can be effective.
- Young people can be employed locally and then if they work out well, helped with training.
- Some people tried to develop a reputation as a good employer.
- Advertising was not a common tool for getting the right people.
- Word of mouth was often the best way to find good people.

One of the points made was that employing people involves a certain amount of risk. No one suggested that they had got it right every time, but when they did get the right people the risk was well worth it. The issue of risk is discussed in the section on Responsibility.

One interesting concept to deal with problems of finding suitable people is the Amuri Dairy Employers Group in New Zealand. Here a group of employers has got together to improve their chances of attracting people to their area. (appendix 1)

## **Selection**

While the interviewed employers generally said that they found people by means other than advertising, there were cases where there were a number of prospective employees to select from.

To achieve the best results it is important to use a structured process of selection. To do this it is necessary to develop a number of standardised interview questions based on the competencies required. The questions should also relate to real life experiences. For example, in relationship to leadership; "Give an example of a time when you have had other employees working under you who have done something wrong. How did you deal with it?"

Each question can then be scored and then the scores analysed on a weighting for each competency.

## Personality Testing

Personality analysis is a test that is being used by a number of employers and groups. The tests have an initial role in determining if someone is suited to an employment role. The analysis can then be used to find out how to get the best from people within the organisation.

The Thomas International Ltd Personal Profile Analysis involves 10 minutes examining a number of options that you feel describes your personality. The descriptions are given in groups of four and then you have to select one option which is most descriptive of you and the option which is the least descriptive.

The key to testing is the analysis of the results, and they can be presented in a number of formats such as a personal profile analysis, a strengths and limitations summary, and a training needs analysis.

Psychometric testing, or personality profiling was used by a few of the employers I talked to. Most felt that it would be useful for selecting between job candidates if you could get enough people applying for the jobs.

I did the test and felt it was accurate, although it did suggest I was possibly out of work or my superior was not happy with my performance.

### **Key Points**

- **A clearly specified position description is the key document**
- **The position description should be updated as necessary but at least once a year**
- **Determine the sort of person required and the necessary competencies**
- **A structured approach to selecting employees is important**

## ***Managing***

### **Building Respect**

The relationship which develops between an employer and an employee must be based on respect for the other person.

Examples of things which build respect for employers and employees are:

- ability to work as hard, or harder than employees
- have a positive attitude
- ability to give clear instructions and targets
- mutual trust

The hard part of trying to work as hard as your employees is that they need to understand your role in the business as well as theirs. Making employees aware of what it is you are doing inside the office or away from the farm is important in helping to build respect. The other key is, understanding the times when it is important to be working alongside the people who work for you.

### **Communication**

Integral to building respect and having good relations with employees is communication. Employees must have some opportunity to discuss any issues they may have with their employer or manager. They must also feel that their concerns are being heard and things are being done to rectify any problems.

A lot of employers interviewed for this study plan regular meetings which give employees an opportunity to discuss any issues they may have. Including employees in the planning process is also a very good method of communicating goals, and giving them an understanding of some of the broader issues the manager faces.

One of the key needs of the communication process and a major role of the position description is defining the expectations of all parties. A study by Tipples, Hoogeveen and Gould (2000) from Lincoln University surveyed a number of dairy farmers and their employees, cataloguing incidents of either satisfaction or dissatisfaction. Most of the employee satisfaction or dissatisfaction stemmed from the amount of time worked, and the work environment, as well as recognition and pay. Employers satisfaction or dissatisfaction was related mainly to loyalty, care for property (plant, livestock, machinery etc) and willingness to work the required hours.

The recommendations in this report relate to working on the key areas of dissatisfaction, but mainly stress the need for each party to understand what the other expects. By making very clear the expectations you have of your employee, the more likely these expectations are to be met. It is also very important that expectations are clear before an employee takes on the position.

One point from the study was that the position description should list all the difficult and distasteful aspects of the job such as early mornings, bad weather conditions, and dirty jobs.

## **Appraisal**

One of the major communication tools is the appraisal process. The most important thing about the appraisals are that they be seen as a positive process for the development of the employee's career and not a test they have to pass each time, to maintain their job. One of the best examples of this I encountered was one employer who had two employment reviews per year. Each employee had to write their own appraisal which was then compared with the employer's assessment. This gave a very valuable insight into what the employee thought they were doing right and what they knew had to be improved. Discussion of the best way to improve performance was then easier and more useful.

Paramount to appraising staff is that the feedback must be good as well as bad. It is easy to find fault in people's work but not so easy to always document the good aspects as well. The emphasis in this employer's case was very much on appraisals being a way that the employees could expand their abilities. Quite often reviews identify some training that would be beneficial which can then be undertaken. The concept of self appraisal, followed by a meeting with the employer, is quite common and helps the communication process.

## **Training**

The same employer had also instigated another process to enhance the ability of his people to give their best to the business. Along with other farmers he had set up a manager discussion group which operated independently from any group he was involved in. The group was only for managers and they were given the responsibility of organising all the meetings, field visits and guest speakers.

Training is sometimes seen as a way of absolving employers of their responsibility for employee health and safety. Everyone must be aware why they are doing the training and what they hope to achieve at the end. It is also important that employers then ensure that the things learnt are put into practise.

One area often overlooked is leadership and building relationships. Many staff members are excellent at their work but when given more responsibility and people to manage, do not have the skills necessary to lead. The best of the people managers interviewed were very focused on staff training. This may have taken the form of weekend sessions, and covered issues such as leadership, company values and financial management.

## **Performance management systems**

The whole issue of employing people is about handing over duties to someone else. With this comes the risk of a reduction in the standards of output. One way to maintain standards is to implement procedures to ensure that things are done in a specified way each time. Business managers who have implemented performance management systems say that the greatest advantages come not from the improvement of the end product, but the smoother running of the whole operation. Performance management systems are the operations manual for the business.

Documented management systems provide a way of ensuring that every task is done to a certain standard and that everyone involved is aware of that standard. It also provides a way of allowing the farm manager/owner to stand back from the business and focus on more strategic issues. Often there is a perception that farmers cannot afford the time to implement these systems even though the people who have done so suggest it is one of the best things they have done in taking their business forward.

Two of my meetings involved an agricultural contractor in New Zealand, and the consultant who had developed processes to help manage his business. The contractor has around 40 full time and 30 seasonal employees. Their main focus was on “People Engineering” and “Process Engineering” which was about translating all the knowledge held by the operators and managers into systems which could be standardised. This “process engineering” was done for management purposes, where product quality was a bonus rather than the driving force.

The aim was to reduce risk by reducing the reliance on any one person. The consultant works as part of a team with the employer and each employee, to document everything they do. The resulting checklist can then be used by anyone to perform the task. The employee also has to sign off on the job, to recognise their responsibility and provide accountability.

The contractor was very strong in his praise for the changes that the implementation of systems had made to his business;

- It is easier to define roles and have people perform their tasks
- It has taken away the reliance on him
- It has helped to define and communicate his expectations to his employees.
- It has provided the ability to measure tasks and therefore appraise the performance of employees objectively.
- Everything is more objective, taking away the problems of him reacting emotionally to any situation
- The introduction of documented systems has better linked employees to jobs.

The example above applied to a larger workforce than most farmers deal with but was an excellent illustration of reducing the long term need for expensive management by standardising all the work.

The biggest issue faced is that no one wants to relinquish knowledge because with it they relinquish power. The key is employer and employee attitudes to this process, which must be carefully considered.

### **Key Points**

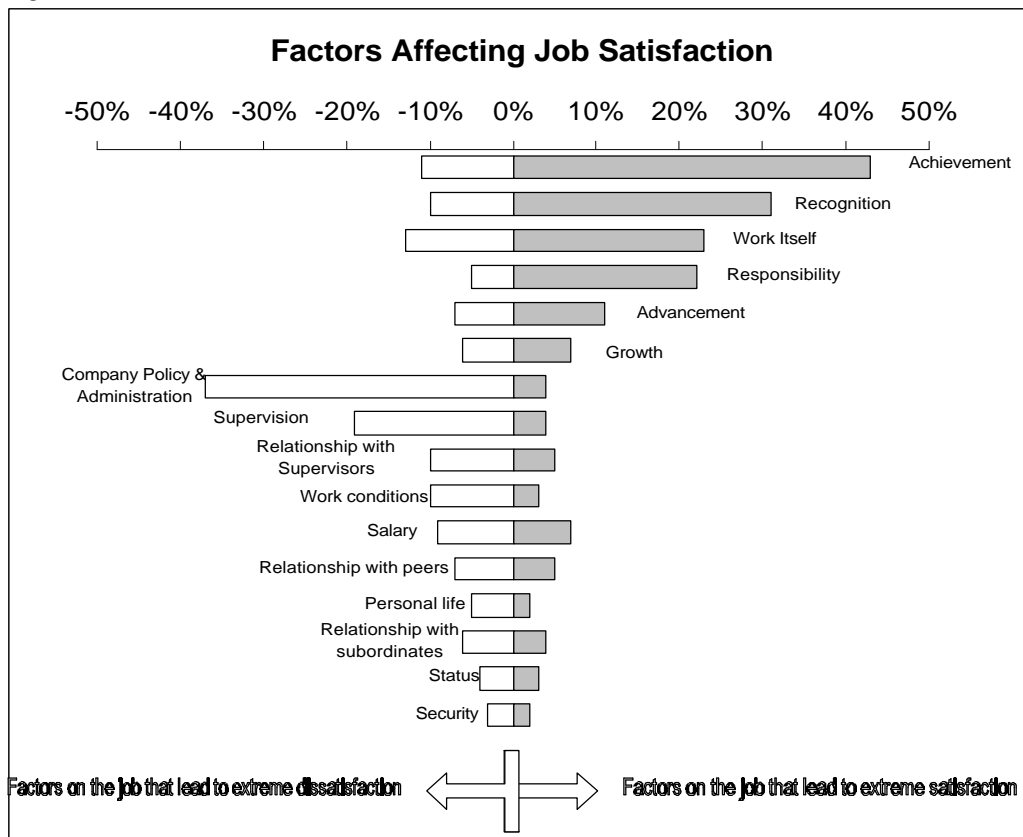
- **Work hard at gaining the respect of your employees.**
- **Communicate well with employees.**
- **Understand your employee’s expectations and make sure they understand yours.**
- **Appraisal should be a positive process.**
- **Build systems to improve management as well as product quality.**

## Motivation

What motivates or demotivates employees was the focus of a study conducted by Frederick Herzberg in 1968. The results of this widely regarded study are shown below. He grouped the factors into “hygiene” factors listed on the left of the table and “motivator” factors on the right. Hygiene factors were the ones created by the management and accounted for 69% of the dissatisfaction. The motivator factors are those which are intrinsic to the human condition and accounted for 81% of satisfaction.

One of the interesting points is the role of salary as a factor. In most cases of Herzberg’s study the amount of money paid to the employee is not a big motivating factor.

Figure 2.



The important thing about motivating factors is that everybody is different. What will work for some people will not work for others. This is why good communication of each person’s expectations is important. There are some people for whom the most important motivating factor will be salary. Motivating factors for each person change depending on their stage in life. A married employee may be more interested in income and job security than a younger single person looking for challenges and experience.

## **Responsibility**

As a motivational factor, all the employers interviewed gave the handing over of responsibility as the key to getting the best from the people who worked with them. This response concurs with the Herzburg study (see Figure.1), where responsibility was one of the major factors influencing job satisfaction. In most of the businesses visited the management structure was based on each person having clearly defined areas of responsibility such as an enterprise or a machine or a specific task.

The important thing is that the employee is given the opportunity to get on with the job without the supervisor being involved. The employee is then assessed on the output rather than how a task is performed or the enterprise managed. There then needs to be good communication about job performance and a supervisor should be available to help if necessary.

The key message about handing over responsibility is that it is not easy.

- There is a risk involved that must be accepted.
- There will probably be a cost in terms of things not being achieved quite as well as under the farmer's direct control.
- The only way to expand and delegate well is to accept the risk and cost.
- The cost must be seen as minimal compared to the potential return which comes from freeing up the owner/manager to examine opportunities and think strategically.

If you look at the factors leading to dissatisfaction seen in Figure 1, they can relate to the inability of the employer to hand over responsibility and set clear goals.

Communication and clearly defined roles are the most important part of this process of handing over responsibility. They are intertwined with the job description and appraisal process. The other part of helping people to perform to their best ability is the setting of goals.

## **Achieving goals**

One of the problems of agriculture, particularly in Australia, is that there are so many external factors which influence the farm output. Many agricultural systems, particularly cropping, have the ability to measure production only once a year. In this case it is very difficult to objectively measure an employee's productivity.

Even so, the aim should still be to make as many jobs as possible measurable. Examples would be number of hectares / day, sheep / hour, lowest cost to achieve an output.

Goal setting should be;

- Specific
- Measurable
- Attainable but challenging
- Relevant
- Time orientated



The achievement of set goals links in well with the major factor of achievement in the Herzberg study. The setting of goals is also a very important part of developing the business for the owner as well as the employee's. Often these business goals can be translated into employee goals as well. The key to goal setting is the attainable but challenging part. Setting targets that no one can achieve can be worse than not setting goals at all.

## **Recognition**

One of the other key factors in the Hersburg study was recognition. This is the ability to make the employee feel that what they are doing is being noticed by the employer and other people. The use of the appraisal process to give positive feedback is a useful way of doing this.

One of the ways that employers can do this well is to make comment in front of the employee to other people about the role that person has played and how good a job they have done. The ability of an employer to attribute their own success to the people around them is always the sign of someone who gets the best from their employees.

One comment from an employer I talked to was that the most important asset of his business was not on the balance sheet. It was the people who worked in the business.

## **Remuneration**

The information in Herzberg's study refutes the belief that paying more money is the secret to getting the best from your people. As long as the employee is receiving a fair salary the most important motivators are more personal things. As with all issues relating to people there will be different motivators for each person.

One system that is sometimes used is profit share. All of the employers visited felt that profit share did not achieve its aims for a number of reasons;

- How do you define profit? Unless the employee has access to all the financial details including owner's drawings, etc. the system is not transparent.
- The years when every one works the hardest are often the years when the profit is the lowest.
- Periodic bonuses may be better and then can be paid at the owners discretion or based on other measurable criteria.

I have seen some very good systems where the bonus is linked to a number of different criteria, such as production, certain financial factors in the business or other measurable traits. In a few cases part of the bonus was linked to cultural issues such as honesty, integrity, and teamwork. These cultural criteria were first self assessed by the employee and then discussed with the employer to determine how the employee had performed.

One business where good teamwork was an important cultural goal pays bonuses based on team performance and not based on individual productivity. In this situation it is easier to measure the outcome of the whole team rather than each individual. In another very good business, the employees were involved in trying to achieve budget targets. The owner ensures that the bonus is a budgeted item from the start of the year. The employee can then see the amount in the budget and have something tangible to work towards.

## **Business share**

Where the opportunity arises, another option is to allow the employee to build up equity in the business. This usually will not work on a family farm for an unrelated employee but there are some situations where it can work well. This does raise the issue of succession in family farming operations. Most of the principles in this report apply equally to family working on the farm as well as employees.

One of the big impediments to developing a farming business is the lack of younger people with energy and enthusiasm. The need for older farmers to take the risk of handing over responsibility to their children is just as relevant as handing over responsibility to employees.

The discussion of business share is covered in more detail in the section on group owned business.

## **The Working Environment**

A critical factor in maintaining employee's satisfaction is the working conditions they operate in. Without taking on the issue of occupational health and safety, factors which allow employees to take pride in their work are important. A number of employers felt that having newer machinery gave the operators more satisfaction and pride in what they were doing. A lot of this is probably related to the owner's desire for new machinery as well. Having said this, it is important to note that while having old machinery may satisfy the owner's needs for efficient use of capital, it does not relate to any obvious advantage for the employee.

As stated in the Lincoln study (2000) one of the big problems with agriculture is the working hours required. There is a need to weigh up the cost of reducing working hours with employee satisfaction. Most good employers do this by understanding this issue and balancing hours worked during busy periods by reducing the requirements during quiet times.

### **Key Points**

- **To get the best from people give them responsibility.**
- **Recognise your employee's achievements.**
- **Set clear, achievable but challenging goals.**
- **Money is not always the most important thing.**
- **Create a good working environment.**

# Group owned farming businesses

## *Introduction*

Due to the pressure of inflation and the cost price squeeze on agriculture, it is often noted that if you are standing still you are actually going backwards. To maintain profitability it is important to increase scale or productivity levels. On most Australian farms there is still more potential to increase production within the boundaries of existing assets. Once the productive capacity has reached around 90% it is then often more cost effective to expand over a larger asset base. Preferably this would be done without having to invest in land, but given the situation of land ownership in Australia, where only 6% of land is leased, is often the only way to expand. One of the ways in which this expansion can be managed is by pooling the resources of a number of farmers. These resources may be capital, knowledge, people or machinery.

Of the people I interviewed, 19 were farm business owners. Twelve of them were involved in group owned businesses or, "equity partnerships" even though I had only chosen four people for that reason. Seven out of the 12 were in dairy farming, particularly in New Zealand, where the concept of equity partnerships seems fairly widespread.

The main reason for working in a group is to allow expansion without tying up too much capital for each individual. One of the other advantages of setting up a joint business away from the farmer's own property is that it does not involve the emotion that is often tied up with someone's own land. The scrutiny of a number of people means that everything should be based on sound business principals. Often business decisions on a family owned farm will relate to lifestyle goals as well as financial goals. In the case of an outside venture some of the advantages are:

- Ability to develop good scale without having the capital to do so alone.
- Involvement in expansion with reduced risk.
- Group owned businesses allow the sharing of equity with anyone.
- It is a very good vehicle for including staff members in the ownership of a business.
- Allows farmers to maintain control over their own farms while still having the benefits of the group approach
- It provides the discipline to maintain excellent management systems.

One of the people involved in an equity partnership said, "I would rather be a small part of a large business than a large part of a small business."

## ***People***

The most important part of the group approach is to have people involved who are totally committed to the concept. The risks involved with group owned businesses are mostly related to the way the people interact. The basis of very successful groups is often when the people are similar in their way of thinking but bring in different skills, and approaches. The way to ensure that the group works well together is to make sure they are all pulling in the same direction.

The people involved need to understand that there are others who can do some things better than they can. The groups I experienced had often spent time determining each person's strengths and had given people jobs based on this knowledge.

The most common situation was where one person had approached other people who they felt would fit in well and had generally been the driving force. Quite often they are good friends. This approach relies on trust and robust structures to protect all the parties concerned.

As I went on it became more evident that getting the right people into the partnerships is crucial. The main reason for creating an equity partnership is to raise capital. Having said this, the emphasis was always on making sure any person involved fitted into the culture of the partnership. Most people were involved because of the skills they brought to the business rather than how much money they could provide. The same situation applies to the working manager in the business. In all the cases I saw, the manager was a shareholder or "equity manager".

The driving force behind one of the equity partnership businesses said that "every one has to be certain that they will achieve more by working together than by working alone"

### **Key Points**

- **Find the right people then the money.**
- **Involve people with complementary skills.**

## ***Goal Setting***

### **Objectives**

It may seem very obvious but the importance of identifying the common goal is the key to successful group business. This should involve a formal meeting to list all the things that each person wants to get out of working together. At this point all parties must be happy with all the goals stated, or the risks of later conflict are high. These mutually agreed goals are also important, to ensure that the business runs as efficiently as possible by reducing the amount of time spent examining the reasons for doing things.

## **Mission Statement**

The mission statement is a way of defining clearly the objectives of the group. It can often be a frustrating process particularly when different people approach it in a different way. If all people in the group are all working on the same objectives then this step should be made easier. The emphasis has to be on all the proponents winning out of the deal. Generally a meeting to set objectives would be facilitated by an outside consultant.

The ownership of a set of written goals, and ways of achieving these is a very powerful tool to keep a business on track and running efficiently. Important also is a process to review the goals after a specific time period. Quite often people's needs and circumstances change, which change the way they view a business partnership. A member of one of the equity partnerships commented "I am not normally interested in all that warm and fuzzy stuff but now can really see the value in it. It allows the board to operate so much more efficiently".

### **Key Points**

- **Structured goal setting is the key.**
- **Every one must have the same goals for the business.**

## **Structure**

Group owned businesses are generally set up as a proprietary limited company. This allows flexibility to change the shareholders and operate by consensus. The emphasis must be on shareholder agreements to ensure that the business will not be threatened by the actions of a minority of shareholders. The development of an exit clause was emphasised in a number of cases. In the same way that choosing the right partners is paramount, the setting up of the shareholders agreement is a very important process. One business owner involved in a number of syndicate businesses described the shareholder agreement as "the bible". The agreement is the main tool in handling issues such as dispute resolution, share ownership and the expectation of each party's input into the business.

The method of share allocation was varied ranging from one equal share for each person to each person holding shares relating to the dollar value of their original investment. Most of the businesses had set certain conditions which related to time frames after start up. This was to ensure that the business was not under threat of internal division during the vulnerable establishment stage. Examples of the "commitment period" were:

- No dividends paid for the first five years.
- After five years a vote is taken to continue the operation and then 75% of shareholders must vote to keep it.
- In the first five years anyone wanting to get out could only take their nominal original invested capital unless a 100% vote of the other shareholders agreed to allow more.

- Shareholders are not paid for their time for 2 years and then they get paid on an hourly rate for management time.
- Most commitment periods were around 2 to 5 years.

## **Financial control**

The management of financial matters, budgets and production targets need to be very structured in this sort of business. Preparation of monthly budgets with assessment of variances and production is paramount. With this is the need for very good communication between shareholders and management as well as management and staff. The development of trust through totally transparent businesses is the key to making a group owned business work.

These factors are important in any business but quite often in the individual farm situation do not get enough attention.

## **Ownership**

Some of the very best examples of the group owned business seen in this study were where the major aims related to people rather than money. It was about giving the best opportunities for employees to grow wealth and become shareholders. This would in turn grow wealth for the original owners. I was very impressed with the attitude to sharing benefits with all the people involved. The attitude was that you would grow by helping those around you grow.

Agriculture's big problem of high capital requirement is an impediment to young people starting off in farming. Under a situation where a property and farming business is owned by a number of shareholders the ability exists for people to build up share ownership and then either sell their equity for cash or have that transferred into future investments.

## **Equity Managers**

In all cases I looked at, the working managers for the companies were also shareholders. There were varying levels of ownership but the general opinion is that between 10 – 25% of the business is necessary. The manager needs to feel that they have a reasonable stake to give them the incentive to really run the business to its full potential.

In some cases the manager does not have enough capital to buy a large enough share of the business, in which case the other partners had often provided finance to get the person they wanted. In the case of a manager leaving the partnership, their share is bought back and then offered to the new manager.

Share farming in the dairy industry is a good example of bringing people in to the industry. The nature of dairy farming makes these things easier as there is a lot of capital tied up in the livestock, which can be purchased over a period of time by the share milker. The attitude of banks to lending on assets such as livestock is also important. Because of the time requirements of milking, dairy farmers are more likely to want to hand over responsibility at an earlier age than other farmers.

One of the farmers interviewed had the attitude that he would rather share some of the returns of his business and have a young business partner than let his core business slow down as he focused on other things. He was planning to bring in a young person and give them a share in his operation. He could see that what he would lose would be returned by the enthusiasm and energy of a younger person who wanted to make the most of the opportunity. He suggested that if he could find the right person he would make more by sharing the equity in the business.

## **Communication**

As with employer employee relations, communication is the key to ongoing success in farming companies. Regular reporting to shareholders as often as once a month is very important. In some situations this may have just been a telephone conference. Other groups used a very structured written reporting process. The system of communication depends on the shareholders and the level of involvement each individual has in the business. Whatever process used, the main point always is to maximise the amount of information for the business owners.

One of the interesting communication tools I saw was the Herrmann Brain Dominance Instrument (appendix 2). The instrument was being used in Argentina by an organisation called the AACREA (appendix 3).

### **Key Points**

- **Managers need to have ownership in the business.**
- **Good financial control is paramount.**
- **Communicate well with stakeholders.**
- **Share holder agreement is the most important tool to make the business work.**
- **Have a good out-clause.**
- **Include a commitment period.**

## **Appendices**

### **Appendix 1. Amuri Dairy Employers Group**

Amuri is a regional area in New Zealand which saw a lot of dairy development after an irrigation scheme was built in the early 1980's. The region had trouble attracting people to work on the new dairy farms.

Dairy farmers within the region formed the Amuri Dairy Employers Group (ADEG), with the following aims:

- To be high calibre employers
- To promote the Amuri dairy industry as a positive career choice and an attractive employment option.
- To provide a high quality dairy employer network.

To achieve these aims the group:

1. Established a constitution for the group, including the need for the members to implement, and be audited on, an employment code of practice.
2. Established a Code of Practice of employment standards.
3. Provided training for employees of group members.
4. Organised social events for employees and employers.
5. Organised an emergency labour pool.
6. Appointed an employment coordinator.

There are now around 35 employers with 120 to 130 employees.

Research work done at Lincoln University by Edkins and Tipples 2003 concluded:

- This group has had a significant and positive effect on the dairy employment situation in the Amuri.
- This type of initiative could also be valuable in improving general social conditions in dairy farming areas.
- This kind of group could help resolve employment problems in other sectors of agriculture.



## **Appendix 2. Hermman Brain Dominance Instrument**

The Hermman Brain Dominance Instrument involves 15 minutes filling out a questionnaire and gives a report based on the areas in which your brain is dominant. The analysis is based on left and right hemispheres and front and rear or cerebral or limbic. The results are then measured in each of four quadrants which are Logical, Planning, Emotional and Imaginative. Understanding which of these areas people are strong in, helps when communicating with others. The instrument is used for staffing, team building, creativity and teaching and learning.

One large farmer discussion group organisation in Argentina, AACREA is suggesting that all its members do a Hermman Brain Dominance Instrument test. This allows all the group members and the coordinator to better understand the way all the people interact. They have been using the test for 2 years and 95% of their members have now done the test.

**More information is available at; [www.hbdi.com/](http://www.hbdi.com/)**

## **Appendix 3. CREA Groups**

In Argentina I visited a number of farmers who were members of CREA (Consortium Regional for Experimentation Agricultural) groups. These were discussion groups normally consisting of around 10 -12 members. The main aim of CREA is to promote the technological and managerial development of its members. The first group was formed in 1957 and now there are 138 groups and 1300 members which is around 1% of farmers.

Each CREA group met once a month for a whole day and had a local consultant or agronomist as a facilitator. The meetings were rotated around the member farms and the main objective of the meetings was to assist the host farmer in solving his problems and planning his management.

One of the big advantages of the CREA groups is that they combine data on a regional and national scale. An umbrella organisation, the AACREA (Argentine Association Consortium Regional for Experimentation Agricultural) organises collection and study of the information provided by the CREA groups. AACREA then processes and publishes the information in a monthly magazine.

CREA is known as much as a movement as an organisation. There are strong community values and an “open gate policy” for people outside the movement to gain information as well. I was very impressed with the attitude to CREA and the benefits gained by the farmers. With one day a month and a cost of around \$ 10 000 per year the farmers are still seeing great value in involvement. An invitation was extended to any Nuffield scholars to visit the AACREA at any time.

**More information is available at; [www.aacrea.org.ar/](http://www.aacrea.org.ar/)**

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