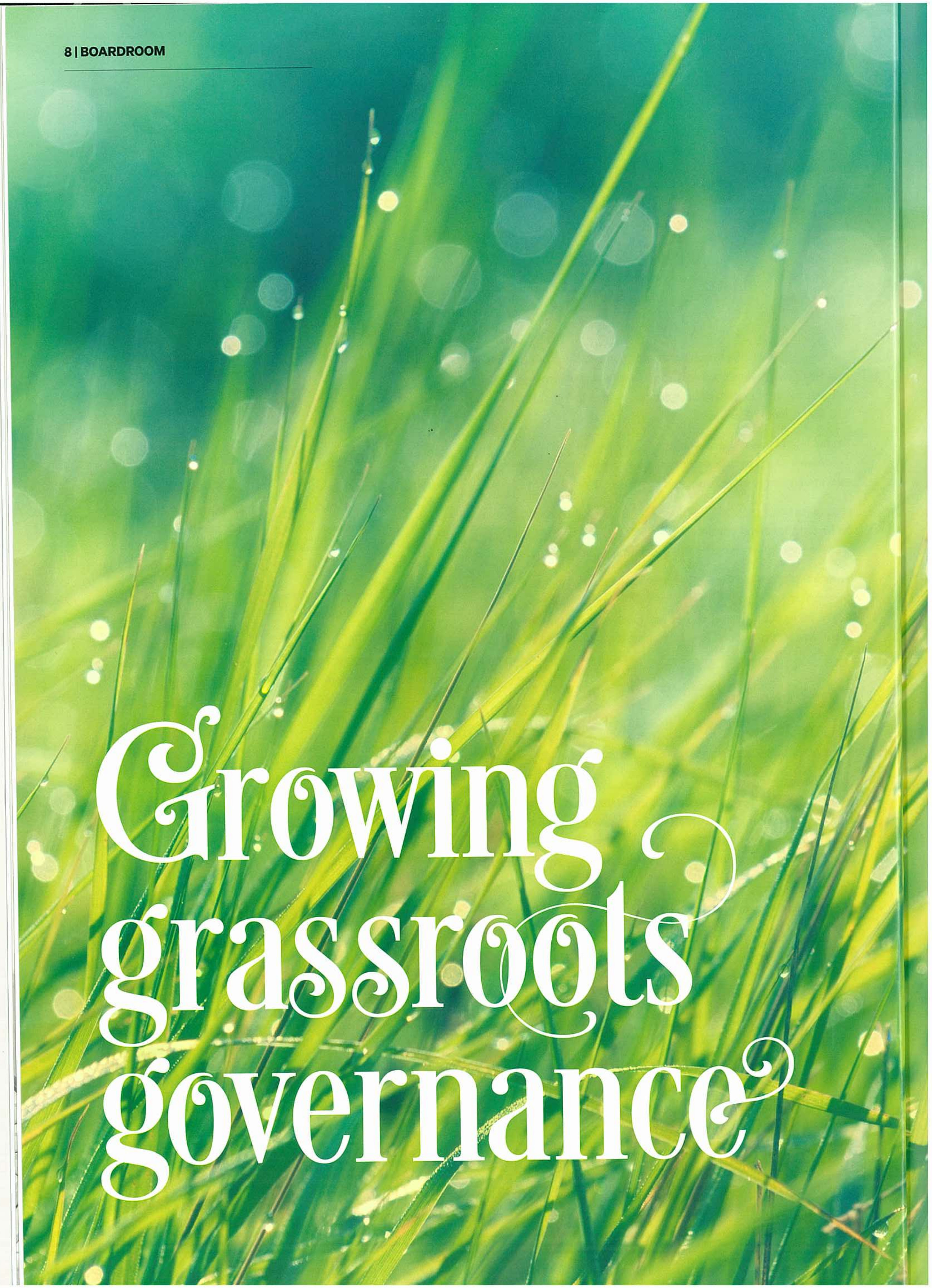

Growing grassroots governance

As a means of handling growth and succession issues, family farms are looking towards boards with independent directors. Amy Williams reports.

Around the country strong governance is being sought on farms that are reaching significant scale and becoming enterprising family businesses. These farms are shifting from being family-run to requiring input and expertise from outside to continue growing.

Some smaller farms without the necessary scale to withstand the volatility of farming are being bought out by larger operators, particularly in the dairy industry.

And as farms expand and hit a certain debt threshold, their bank managers are insisting on independent governance.

"Farming is a hugely volatile business and needs a strong risk management plan for withstanding the extreme highs and lows," says Marise James, an experienced agribusiness consultant and director for Staples Rodway Taranaki.

Just as well then, that farming is moving more and more into the realm of governance.

FAMILY MATTERS

The farm is also the family home, making decisions around land, people and the business's future emotive.

Marise says a board, either advisory or with independent directors can help a family navigate through potential conflict or performance expectations.

"One of the strengths of having formal, independent governance is that you are more easily able to separate business and succession issues from the family," she says.

"It's not just a place you go to work, it's where you live as well and that's a complicating factor. It's harder to separate things because you have a lot of emotional attachments to where your home is."

Farms that change from family-run to a governance model need to manage the move carefully.

"A lot of businesses grow in a piecemeal fashion and they end up with a structure that has come about without too much formal planning," Marise says.

"It's beneficial to sit down and ask 'how do we want this to look going forward?'."

Marise James

Sam Robinson

Caroline Robertson

Dr William Rolleston

Marise suggests all family members who will be on the board get the same governance training about what to expect, and what is expected of them.

She says farms are often tipped into governance when they reach a certain scale or indebtedness.

That's something Sam Robinson, the chairman of AgResearch and director on many agribusiness boards, has seen first-hand.

AgResearch is New Zealand's largest Crown Research Institute, and its science supports greater value, productivity and profitability for the dairy, meat and textiles industries.

A sheep and beef farmer, Sam says the rapid growth of dairy farms in particular has driven the need for formalising arrangements, of equity partnerships and the like.

"Governance has become the new exciting thing to be involved in. It's always gone on in the farming families' heads with their professional advisors, and now that we have bigger entities with multiple owners there is more need for governance," Sam says.

One example of a successful dairy farming business that grew from one farm to a multi-million dollar enterprise is the North Island Armer Farms, owned by former sharemilker Colin Armer and his wife Dale.

They brought in expertise to the boardroom when it was needed and have since bought a majority shareholding in Dairy Holdings, the South Island dairy conglomerate.

READY, SET, GO!

For a start it could be that family members are on the board and others are brought in as advisors.

That's the case for Central Hawkes Bay veterinarian and farmer Caroline Robertson. She won the IoD's 2014 Wellington Branch Emerging Director Award, and has a good handle on what makes a farming business enterprising.

"The family enterprise is an enterprise owned by a family that may not take into account the individuals. Whereas an enterprising family is using what they've got to make it good for each member of the family," Caroline says.

That's when a farming family will use the capital base of their farm to enable everybody to fulfil their dreams, and at the same time work together to manage expectations and make decisions.

Caroline says her three children joined the farm board as directors when they were 18 years old (they're now all in their early 20s), and they have all bought into the experience. They have a family charter, similar to a shareholders' agreement.

"Certainly from our children's point of view they are involved and they feel responsible and that's good training for them as well. They do challenge us on a whole lot of areas and that's good," Caroline says.

However, when it comes to succession, she says it's important to have a flexible plan.

"We're talking about people's lives and things may change, it has to be a pretty flexible plan. But we realise that at some stage there will have to be some sort of separation of farm and family."

She says bringing in independent directors or advisors to help make decisions is helpful.

"It's not just a place you go to work, it's where you live as well and that's a complicating factor. It's harder to separate things because you have a lot of emotional attachments to where your home is."

It is common for a farming family to have children who work on the farm, and children who do not – and letting a board with independent directors give advice on matters of succession and performance helps to keep such decisions from becoming points of conflict in a family.

THE RIGHT SKILLS

When a family needs to look outside their members for skills needed to grow their farming business, most look to their current advisors – farm advisors, accountants, lawyers and bank managers.

In her work with farming businesses, Marise has seen many struggle to adapt to a new model of decision making.

"They need an independent director with governance experience who can help them through the transition," she says.

"There's a great tendency to get out and do work on the farm because we can all see, touch and feel that. In agribusiness there's a much more blurred line between management and governance so you need a strong chair who can control that tendency for the hands on directors,"

As a keen farmer (although he prefers to describe himself as a producer of quality food), Robinson says people who join boards of farms need to have an understanding of the business.

"Agriculture is a biological weather dependent business, selling into global commodity cycles, and bringing the returns back through the Kiwi exchange rate," he says.

"You need to have a very long view about life. If you're an impatient director owning a dairy farm right now, you'd be throwing your toys out of the cot."

Sam says directors need to have an appetite for risk given the volatility in farming, and be able to see through the cycles. He says directors also need to have an empathy with farming and be disciplined.

"There's a great tendency to get out and do work on the farm because we can all see, touch and feel that. In agribusiness there's a much more blurred line between management and governance so you need a strong chair who can control that tendency for the hands on directors," Sam says.

ADDING VALUE

And he emphasises it is important to guide the growth of a farming enterprise in a manner that will not limit business activities and growth.

"You can't make the governance so formal that it chokes the business and bogs it down in process, stifling the entrepreneurial flair. You're either there to clip the wings of management or be the wind under their wings," says Sam.

Federated Farmers president Dr William Rolleston agrees. He is also concerned that farming businesses are being forced to focus more on compliance, putting the focus on paperwork rather than growing a business.

"It changes the function of a board and you end up with a risk of over governance, and small farming operations aren't able to be quick and nimble on their feet because they have to wade their way through a raft of compliance issues," Dr Rolleston says.

The farming property he and his brother John own, Blue Cliffs Station in Canterbury, has had a governance structure for 100 years – although more recently it has been less formal.

He and John have a biotech company, South Pacific Sera, which produces products from their own animals.

The company expanded over time, from a two-man operation where the brothers did everything, to an operation employing over 70 people.

Dr Rolleston says it is valuable to seek independent advice, whether from an advisory board or more formal board of directors.

"By bringing people in from outside you get a window of what other people are doing. You can learn from the experience of people around the table and that's really valuable."

RURAL GOVERNANCE ESSENTIALS

The IoD will launch a Rural Governance Essentials course in Invercargill on 22 July.

Designed specifically for rural businesses, this one-day course offers insights into the benefits a board can bring to a farm or agri-business.

Outlining a board's responsibilities, it focuses on strategy, farm safety, and risk management, as well as practical advice that will help the running of your farm or business.

For details and to register, visit iod.org.nz