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Continuing Professional Development and Farm Business Performance

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CONTINUING PROFESSIONAL DEVELOPMENT AND FARM BUSINESS PERFORMANCE

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ABSTRACT

Economic and social pressures are transforming farm businesses and the structure of the agricultural industry, consequently it is presumed that farm management skills are under intense pressure. This creates a need for effective interaction between knowledge management and the actions taken by farm decision makers. However a definition of “successful farm business performance” is not easy to find and this, combined with literature that deals with managerial tasks in isolation, does not provide a clear picture for the farm manager pursuing self development. Farm businesses vary considerably in their attributes and resource base and the plethora of measurable factors mean that the manager needs to be able to identify what to measure and why on his own farm. In the UK it appears that most of the measures used in farming do not take into account the customer or human factors alluded to in other industries. Development of the skills and abilities of the decision makers to utilise techniques, interpret measures and relate them to their own business needs is increasingly important. The preliminary investigations described in this paper indicate that farmers and farm managers are aware of business management techniques but do not appear to integrate them fully into their own businesses.

INTRODUCTION

Economic and social pressures are transforming farm businesses and the structure of the agricultural industry (Winter (1997)), therefore it is presumed that farm management

skills are under intense pressure. Giles and Renborg (1990) ask the question ‘What, in fact, does it mean to manage a farm business?’ and expand on the ‘*totality*’ of the job and its many requirements. The decision maker for the farm business is often both the leader and the manager. This person is being driven to improve technical performance, maintain welfare and environmental standards, and continue to maintain the health and growth of the business for it to remain as part of the present, and future, agricultural industry. This is prior to meeting any personal objectives related to the farm business. Is a clear strategy and management process enough to achieve this? Peters and Waterman (1982) found in their review of successful American businesses that effectiveness went beyond strategy, and included issues of operational adaptability and flexibility in areas such as personnel and business structure. Therefore to achieve success in the farm business the farm manager needs to “get the balance right” (whatever that may imply). Giles and Stansfield (1990) expounded that farm managers ‘must manage; they must be allowed to and must train themselves to do it’. These factors pose the questions: “What continuing personal and professional development is needed for the person running the farm business?” and “Will any development of this person improve the business performance?”

These two questions have stimulated the work detailed in this paper. Firstly the information and literature reviewed to date are explored with regard to farm management information, knowledge management, the measurement of business performance, and the acquisition and utilisation of skills in the pursuit of farm business success. This is followed by the details of the approach taken to the collation of investigative information. The observations from this data are drawn together and some preliminary evaluation is made. The concluding remarks give an indication of the possible future direction of this study.

OVERVIEW

Farm management information and knowledge: its role in determining the success of farm business performance

Information available on farm management promotes tasks such as objective setting, planning, decision making, monitoring and control to achieve farm business success (e.g. Giles and Stansfield (1990) Turner and Taylor (1998)). Management techniques are often addressed in isolation and whilst courses and management literature are

available, the plethora of information combined with the issue that a clear definition of farm business success is not easy to find may dissuade implementation on farm. Giles and Renborg (1990) challenged the issue of the formality with which some of these tasks should be undertaken in the farm situation. Rougoor et al (1998) reviewed studies on the role of management capacity in relation to farm results and identified that more observation on the decision making aspects were needed.

How does the method of utilising information contribute to the successful business performance? Drucker (1967) emphasises that ‘working on the *right* things is what makes knowledge work effective’. This raises the issue of the goals of a business. For the management to be effective the ‘*right*’ business goals and objectives need identification. These objectives provide direction for effective business management (Robinson (2000)). Giles and Stansfield (1990) recognise that there will be ‘conflict and compromises, and profit ...will have to be balanced with other requirements’. This confirms the need to evaluate the choice of measurement of farm business performance and the need for development and self-awareness by farmers and managers to ensure that it is achieved? If the above categories are all addressed then these measurements will not only be finance and production related.

Business performance measures

How effective the management and utilisation of information for the farm business is will be measured in some form by the business performance. This however may comprise of quantitative and qualitative elements. Traditionally farmers have evaluated, or had advisors evaluate (e.g. Griffis (1988)) their performance by indicators or classifications. The information for these would typically be obtained from the tax accounts, comparison with their regional farm business survey and through the consideration of league tables of production or marginal performance. These measures of business performance are commonly financial and production related. Different definitions of terms and methods of calculation further complicate the interpretation. Initial impressions of the performance information show that although there has been criticism of these measures, in fact most of them are still commonly used in UK farming today. These measures do not take into account the business’s strategic vision or the customer and human factors alluded to in other industries. To demonstrate this Table 1 below shows the range of measures commonly available to dairy farmers in the UK.

Table 1: Examples of performance measures for dairy farmers in the UK

Terminology	Units of measurement
Gross margins	£ per cow £ per ha £ per herd
Margin over purchased feed	£ per cow £ per herd pence per litre
Milk production	litres per cow litres per hectare
Profit	£ per farm
Proportional analysis	costs / business turnover (%) £ per £100 output
Growth in net worth	% change
Unit cost of production	pence per litre
Feed efficiency	Kg fed / litre produced
Stocking rate	Livestock units per hectare

These would be measures typically used in a range of organisations and found in commercial company's annual dairy farm performance reports. Annual tax accounts and farm business survey reports can also include financial ratios. The information may categorise the farms by enterprise mix, size or location and be presented as average and top percentage banding (e.g. top 25%)

This example demonstrates that the information available for the dairy farm manager to measure his business is all presented in production and financial terms. Trends within the business, comparisons to other businesses and predicting future performance are therefore all based around these parameters. This would indicate that assessment of performance excludes any information if it is non-financial or non-production based. This may lead to decision making based on insufficient information and may not have accounted for wider business issues such as increased capital requirements for expansion or the objective of the shareholders (family) to meet private drawings.

The limitations of the performance measures discussed previously have been addressed in some areas of farm management literature. One example of these can be seen in the

work undertaken in Australasia using the concept of the Balance Scorecard for family farms (Rawlings et al (2000)). The foundation of the technique (Kaplan and Norton (c.1996)) is to identify a balance of performance measurements that can be used to progress towards the achievement of the business' strategy. This addresses both financial and non-financial performance measures offering a balanced perspective of the whole business. However implementation of this technique relies on a strategy for the farm businesses being in place.

In this instance it would appear that awareness of the skills and abilities of the decision makers, firstly to identify their business strategy and then to utilise and interpret measures and relate them to their own business needs, is increasingly important.

Another example of business evaluation is Benchmarking. This practice is used in a wide range of industries. It is a continual process of measuring your operations against those of another (not necessarily within the same industry) to seek best practices that could be adapted to enhance your business (e.g. Harrington (1995), McDonald and Tanner (1998)). The term benchmarking is used in comparative business performance measurements in UK agriculture. Much of benchmarking information available to farmers is still only from within their own groups or from information that is not audited and is related to production or finance. This uses benchmarking in only a limited way. Is this due to a misunderstanding of the principles and uses of benchmarking? The purpose of the benchmarking methodology is to encourage continuous improvement over time.

A farmer who is top of the milk producers league table or who has the lowest unit cost of production has little information to aid in the interpretation of this data and its implication to the farm business or achievement of the strategy. It is not possible for any one ratio or indicator to measure the performance of an industry unit adequately (Harper (1986)). The performance of any unit and its various measurements will be of interest to different people for different purposes.

Continuing personal and professional development

If the preceding literature is correct it seems appropriate for farm decision makers to undertake some form of continual evaluation and development of their knowledge and skills. Historically this development for the farmer or farm manager in the UK has

involved attending courses, meetings or farm visits away from the farm and from written or electronic information. Other information and advice may come from technology transfer events or the farming media. Some aspects of this development have been assessed. For example evaluation of uptake of technical research in certain areas has been addressed (Murray and Winter (1998), Davies *et al.* (1996), O’Keeffe and Fletcher (1998)). The value of adopting management methods to achieve technical improvements has also been presented in financial terms (Esslemont (1995)). There have been studies on the level of education of the farming workforce (Gasson (1998)), evaluation of the training of the workforce (Girdler (1995)), and assessment of training and development needs (Errington and Nolan (1997)). Decision-making has been addressed (e.g. McGregor *et al.* (1996), Robinson (2000)) as has farmers’ attitudes towards management, and opportunities of uptake of information technology in agriculture (Warren *et al.* (1996) Damms and Stone (1995)).

This literature takes account of some of the personal and professional development needs of the farm manager. However little evidence was found to show that evaluation has taken place into the impact of that continuing personal and professional development in terms of its effect on business performance. It is from this premise that this current investigation is being undertaken. This paper will share thoughts and information collated to date relating to these issues.

INITIAL INVESTIGATIONS

From the findings in the literature it was clear that it is necessary to develop a better understanding of perceptions held by farmers of “successful business performance” and its relationship to continuing professional development. Information was drawn from a working knowledge and experience in the facilitation of farm and business management skills on a vocational basis with 32 practising farmers, farm or unit managers (subsequently referred to as ‘the vocational training’). Evidence was gathered from written documents, and records of one to one and group meetings. The vocational training with these farmers takes place over a two to three year period and the evidence gathered for this investigation has been undertaken retrospectively.

This was linked to twenty-one interviews undertaken with farmers and industry leaders. They were semi-structured in nature using a questionnaire and varied in

length of time from 1½ to 3 hours. The interviewees were the farmer, farming partners or the farm manager. These interviews targeted persons selected as “successful” in their agricultural business performance either by agricultural industry leaders or by agricultural academics in that location. At no time was “successful” defined or quantified in any manner. It was left to individual perception as to the selection of suitable interviewees. The self-perception of the interviewee was often in conflict with that of the identifier. Success in these cases was not quantified but was ‘in the eye of the beholder’ (Ryan (2000)) and one farmer stated that his identification of success is someone who is achieving what he (the identifier) aspires to achieve. This observation of peer recognition requires further investigation.

In the interviewed group the questions centred on two areas of their business. Firstly their perception of successful agricultural business performance. Secondly, their view on the attributes of a successful farm business manager, the development of themselves or their manager’s agricultural or business skills and the impact of this development on their business.

OBSERVATIONS

The information presented is a combination of the observations from the two farming industry groups, previously described, and the relationship between these observations and other theories. Two issues are considered: Business performance and continuing personal and professional development.

Business performance

Both sets of information and observations raised areas of inconsistencies with interpretation of business performance terminology, measurement and information used for decision making. It also demonstrated conflict between family or business members regarding the purpose of the business.

The interviews undertaken with perceived “successful” farmers demonstrated that they are aware of ideas such as strategic vision, objective setting, benchmarking, monitoring and review. However there are fundamental problems with trying to implement some of

these. One farmer said he had been on a strategic planning course but when it came to implementing it on his farm he had 'filed it in the *too hard to implement* file'.

In the vocational training group the initial process of analysing the business was hindered by conflicting family or business partners' vision and one person found that their identification of a business strength was in fact seen as a weakness by the partner! This was also observed to combine with a lack of information that could be used for farm management purposes.

This aligns with the literature in suggesting there has to be some agreement among all the stakeholders to the purpose and strategy of the business. Once this is decided upon, an analysis of the business in terms of human, physical and financial resources (Shadbolt (2001a)) can be undertaken. Business performance measurement literature identifies that both financial and non-financial indicators (eg. Harper (1986), and Shadbolt (2001b)) need to be looked at to ensure that the business has in fact "got the balance right". However with agriculture the quantitative nature of financial performance indicators still show a tendency for these to be the preferred information on which decisions are based.

The first two interview questions gathered information on the interviewee's definition of "successful agricultural business performance" and then subsequently clarified how they would measure this business performance. In their responses 47% of interviewees identified measurements that did not relate specifically to their definition of successful business performance. This raises issues that would need further investigation: what is the level of knowledge and understanding of the definition and measurements of business performance within agriculture?

Within the definition and measurements of success 52% used some social terminology, such as 'happiness', 'contentment', 'job enjoyment', and 'family well-being' within their answer. Only one businessman was able to quantify this measurement in some term, referring to it as 'Emotional Return', where:

Agricultural Business performance = Return on Capital + Emotional Return

He went on to state that in his opinion 'Emotional Return' equated to the difference between return on capital at commercial rate and return on capital in agriculture.

These responses were consistent with the observations of the vocational training group, who found difficulty in quantifying performance indicators, other than those for financial or production objectives. Personal aims and objectives were documented and in a family business these are often integral to the business. The relationship between these observations and the theories regarding utility maximisation or the discount factors that encourage persons to stay in one business rather than another, warrant further investigation.

Continuing personal and professional development

Both sets of observations in relation to business performance highlighted the knowledge management problem of “GETTING THE BALANCE RIGHT” (in whatever form) to achieve all required objectives within the business strategy.

There is information available but ensuring that it is being used in conjunction with the appropriate management techniques and tools and interpreted by someone with the management capacity to take action is the key to business success (Napier (1997), Rougoor et al (1998)).

In the interviews, areas of development seen as the most beneficial were highlighted as those gained through networking. This included access to ‘top producers’ and being involved in industry groups. Access to information by reading either from books or the Internet was the next most used method of development, in this case with the topics commonly referred to all being management related. Finally, the identification of weaknesses and consequent employment of an expert in that area, rather than trying to develop one’s own skills, was raised on four occasions. Formal training was only undertaken when it was identified as a required qualification for the job role.

Response to what impact any development had had on their business performance, in terms of the measurement they had originally given was only quantified in one case. This farmer stated that development of financial awareness in his early years of farm management had the following impact on the business: ‘to learn to spend less than I earned, took the business from being nearly bankrupt to solvency!’ In other replies impact was identified as increased motivation, ability to recognise strengths and

weaknesses, improved information and tools for decision making, improved employer - employee relationships and a workforce with a pool of competencies.

In asking for the perceived future requirements to facilitate continuing professional development for themselves or their managers the only formal training identified (by two respondents) was in the area of strategic planning. 'Networking' and access to 'good thinkers' dominated the answers, being mentioned seven times. 'Travel' and 'observation of others' was raised on five occasions. Support or 'hand holding' while implementing new practices would also be welcomed. In the case of a young farmer who had been involved in leadership within the industry he felt encouragement to take action, rather than just know about it, was critical.

In relating the development of an effective farm manager to the definition and measurement of business performance some observations can be made. In response to their perception of business performance 86% used some form of financial terminology. However when asked to identify the key attributes of an effective manager in a successful farm business only two of the respondents identified any financial acumen. This raises the issue: "Why do the perceived attributes of a successful business manager not include qualities that would be in line with the stated definition and performance measurements?"

The vocational training encouraged an evaluation of personal and professional skills required to manage the business and the planning of a process to develop these. This often highlighted differences of opinion and awareness of abilities and objectives between one or more of the business partners. In some cases showing that, before this time, they had been working together on the same enterprises but towards different end points! All the skills acquired during this programme are implemented (where appropriate) on the participant's farm. It provides an ongoing forum to discuss and observe how improvements have been made in a peer group of farmers, and to visit perceived successful farmers outside the group. The opportunity to network between and within the groups is documented as a strength of the training programme and a key mechanism for achieving self development. This concurs with the responses of the interviewed farmers.

CONCLUDING REMARKS

The literature and observations reported demonstrate that success in farm management and farm business performance is not uni-dimensional and therefore has no single measurement. Success consists of several dimensions that may or may not be measured in quantifiable terms. This creates a need for effective interaction between knowledge management and the actions taken by farm decision makers. Therefore further investigation of the relationship between the development of effective management capacity of farmers and farm managers and the evaluation of how this then impacts on farm business performance is necessary. This will require some bridging between the information and techniques used in farm management and those of other businesses and disciplines.

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