FARM MANAGEMENT PLANS

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Abstract

Farmers have been encouraged, for many years, to apply a more formal and rigorous planning approach to their business management functions. The preferred documents accompanying the planning are strategic plans or business plans. Setting a strategy refers to developing a plan that documents where a farmer sees his or her business in the future and what management and investment decisions have to be made to attain the vision. Business plans are more focused on a specific concept or project, usually within a defined timeline. The two planning functions can exist on a standalone basis but more typically, one would expect a business plan to harmoniously be working toward achieving the longer term strategy. Strategic plans will generally have a five year horizon with a three to five year focus for business plans. Plans that have a one year timeline are usually more operational in nature. Having an operational plan would be a minimum expectation.

But the reality is that the majority of farms have no formal plans at all. Farmers will have operational plans but they reside in their heads. The absence of any formal planning hierarchy does not, in itself, result in failure. In fact, many farms have been very successful with no written plans at all. This paper will not argue the relative merits of strategic, business or operational plans. It will present an alternate approach to planning.

Keywords: farm, management, planning, strategy, finance, operations

1. Introduction

Farmers have been encouraged, for many years, to apply a more formal and rigorous planning approach to their business management functions. The preferred documents accompanying the planning are strategic plans or business plans. Setting a strategy refers to developing a plan that documents where a farmer sees his or her business in the future and what management and investment decisions have to be made to attain the vision. Business plans are more focused on a specific concept or project, usually within a defined timeline. The two planning functions can exist on a standalone basis but more typically, one would expect a business plan to harmoniously be working toward achieving the longer term strategy. Strategic plans will generally have a five year horizon with a three to five year focus for business plans. Plans that have a one year timeline are usually more operational in nature. Having an operational plan would be a minimum expectation.

The reality is that the majority of farms have no formal plans at all. Farmers will have operational plans but they reside in their heads. The absence of any formal planning hierarchy does not, in itself, result in failure. In fact, many farms have been very successful with no written plans at all.

This paper will not argue the relative merits of strategic, business or operational plans. It will present an alternate approach to planning. It is possible for farmers to successfully manage their businesses by focusing on marketing and operations. However, as farms continue to advance through their business and family lifecycles, they need to re-focus their attention. Many will intuitively know that they need to make some changes in their business management functions. The challenge is three-fold; knowing what options exist, determining which option best meets their needs and, knowing how to go about implementing the change(s).

2. Commitment to management change

2.1. Bill Gates is credited with the following:

This is a fantastic time to be entering (or be in) the business world, because business is going to change more in the next 10 years than the last 50.

We always overestimate the change that will occur in the next 2 years and underestimate the change that will occur in the next 10. Don't let yourself be lulled into inaction.

They have direct application to primary agriculture. Everyone knows that change in farming is hardly anything new. There is a business axiom that states that a business – including farms – will typically outgrow its management. Growth in the literal sense of more acres or animals. Growth also in complexity in terms of how many people are involved in ownership and management, generational transition, and the diversity of the business enterprise mix. Managerial development, and change, is required. Even if a farm has been relatively stable, the requirement to advance business management applies to maintain the status quo. Failing to do so runs the risk of slippage, in relative terms, as compared to other farms in similar situations.

The reality is that there are some things that, from a farm management perspective, are really challenging for farmers to do. Farmers will have identified the need to make changes in how their farms are being managed. They will have come up with ideas on what the changes might look like. They will often express their frustration in the difficulty in their implementation.

There are a few reasons why this happens. One is procrastination. There generally is no any real urgency – as in 'this needs to be done this week' - to the adjustments. But, pretty soon a month or two slips by with no action and soon a new production season is looming. This is the second reason. The production season for farmers is critical, justifiably filled with urgency and stress. In these situations, human nature causes people to revert to what has worked in the past. When the production season ends, it is back to the drawing board when it comes to making adjustments to those management plans.

There needs to be a plan. The third reason. The lack of a plan is a significant stumbling block to change. How simple or complex the plan is becomes a factor. The third reason is related to the ownership and management structure of the farm business. Management and ownership are almost always one and the same. So, if the person who is responsible for making the changes in management is not getting the job done, who do they report to? Themselves? The lack of accountability can be a major issue and at the same time, one of the easiest to remedy. Change is unavoidable. How farmers deal with it is what is important. Lao Tzu stated that *If you do not change direction, you may end up where you are heading.*

An alternative to the more traditional approaches to planning is the development and implementation of a management plan or program.

2.2. Management plans

Management plans are somewhat of a hybrid when it comes to planning. They differ from strategic or business plans in that their focus is on implementation – answering the 'how' questions. In that respect, they more closely resemble operational plans. But they differ from operational plans because they more actively consider longer term strategy and mandate continuity in their implementation. The connection between a management plan and strategic plan can be expressed as "if this is what we're doing (the 'how'), is it getting us to where we need to be (the 'where')?".

Strategic, business or operational plans can be somewhat abstract exercises – plans often designed to meet the requirements of a third party or simply because the expectation is that a farm has a formalized plan. There usually are gaps between the plans their implementation. Farmers who work within the framework of a management plan value the practical application of the planning activities associated with developing and implementing their plan or program.

2.3. Three key alignments

There are alignments that should be kept in mind when managing farm businesses. The alignments referred to being strategic direction, financial performance and management structure. This is nothing new as these functions have impacted on farms for decades. What is new is the importance of more proactively understanding them and monitoring their alignment as a farm business moves through its lifecycle.

2.4. Strategic direction

This alignment consideration is really about strategic direction. Farms and farm families should have written vision statements that define longer term direction of the farm and family. A vision is the foundation of the future: what they want their farm business to become.

Practically, it should describe where they see their farm business five years from now. It is not set in stone. The vision will evolve over time and as situations change. It represents the direction of the business or where the business is headed

2.5. Financial performance

All farms have an existing financial direction. The reality is that they are headed somewhere financially. For most farmers, this is a reactive function meaning that the financial position in the future - say five years from now – will be an outcome of what will happen over that time frame. The preferred approach is to define what is wanted, or required, in a future financial position. And then determine what can and needs to be done to achieve it. It can be thought of as creating a financial vision. It should include financial targets and investment guidelines. There is a business adage that says that you can't manage what you can't measure. How does a farm family know if they are tracking to where they want to, or need to, be financially if they have not defined the goal?

Logically, there should be a significant degree of alignment between a business vision and a financial vision. Sometimes there is a disconnect between the ideas of where a family wants their farm to be in the future and in their ability to get there financially. Having a dream and then after a time, realizing it cannot be afforded can be discouraging. Like setting out on a trip and part way along the journey, realizing that there is not enough gas.

2.6. Management structure

The importance of understanding a farm's management structure, as farms increase in size, and complexity has never been greater. The basic management functions on a farm are the same but what's involved in attending to those functions has changed and is changing. For many farms, this is a new and evolving reality.

Simply stated, what does the management structure of a particular farm need to look like in the future so that it is appropriately aligned with its business vision and preferred financial future? Putting some structure around the management functions on a farm can be a very powerful exercise, but not necessarily a complex exercise.

Three key alignments include: creating a business vision, putting definition around a desired financial future and, developing a management structure that reflects the current reality and future requirements. Once developed, it is possible to monitor their alignment and make adjustments that will be required to keep them aligned.

2.7. Structured approach to management plans

The process as outlined in this paper uses a structured approach to developing and implementing a management plan. The components of the planning process are identified in detail and in chronologic sequence. There are milestone components, or components that must be completed before moving on to the next planning activity. There is variability in the amount of time required to work through each planning component.

There is clarity and agreement on what needs to happen, in what order and against the agreed upon timeline. The planning process includes work that the family has to do on their own time. If there is a desire to work through the planning process as expeditiously as possible, the family has to commit to making the effort to 'get their homework done'. If the family realizes that the commitment required to meet the timelines cannot be met, then adjustment to the timelines can be made.

The actual planning process can be organized into three phases. Preparedness Assessment. Framework Development. Management Plan Implementation.

2.8. Preparedness assessment

Farm businesses and families will be different places in their lifecycles. They may identify a desire and willingness to work through a process that develops and applies a more structured approach to their management functions. However, not all will be prepared to work through it. As farms have grown in size and complexity, the process has become more involved. It is generally accepted that these trends will continue which makes it increasingly important that farms work through a preparedness assessment prior to investing the time, money and resources in developing a management plan. There are farms that are simply not ready to apply a more structured approach to their management practices. It is far better to come to this realization early on and easier for ownership and management to make the necessary adjustments before beginning to work through the process.

The Preparedness Assessment includes quantified and qualified assessment. The steps include:

- Setting goals:
  - Looking for convergent and divergent goals.
- Values:
  - Determining how core values are aligned.
- Financial Performance
  - Determining the farm's historic financial capacity.
- Management:
  - Reviewing management practices to determine relative strengths and weaknesses.
- Historical Business Development:
  - Documenting key, historical business development and correlated management rationale.

The Preparedness Assessment Phase concludes with a 'communication meeting', or a meeting with all family members who are part of the planning process to review their 'preparedness'. If the farm is generally prepared, then the planning can continue. If not, then ownership and management can take the necessary steps to get prepared before proceeding.

3. Framework development

The management plan is a good as the process that is followed and the detail of activity included within the process. The process as outlined below is quite structured. There is a risk that farm families get bogged down in the planning, resulting in situations where they circumvent steps or, worse, discontinue altogether. The Framework Development Phase is best served when it is championed by an external facilitator. The facilitator must manage participant commitment and involvement against expectations, timelines and desired outcomes; keeping the process moving, knowing just how much time to spend on each step and knowing when to circle back to issues that need to be discussed and re-clarified.

3.1. Strategic direction

- Guiding Principles:
  - Within the three broad categories (major concerns, planning objectives and strategic objectives) are points that are important to consider when developing a management plan.
- Vision:
  - Defining what the future is for the farm and family is very important. It helps to put some definition to what people want and what to plan toward. This is vision.
- Situational Analysis:
  - Farms operate within internal and external surroundings. They can be defined by examining strengths, weaknesses, opportunities and threats (SWOT). Understanding the situation forms a base from which to proceed.
- Risk Assessment:
  - Farm families deal with risk all the time. But, there can be risks that have specific importance from long term management perspective. The assessment helps to identify the risks, from which mitigating actions can be taken.
- Critical Issues:
  - What are the things that farm families need to get right to make sure that they have the best chance at being successful? These critical issues are found in different areas of management and need to be identified and actions taken to address them.
- Action Plans:
  - Once the critical management issues have been identified, detailed action plans should be developed. Action plans bring accountability to the planning process and implementation, and keep it moving forward.
- Communication:
  - Regular and structured communication is critical to the planning process, its implementation and to achieving desired outcomes.

3.2. Financial performance

- Financial Targets:
  - Implementing a management plan will affect the farm's financial performance. Setting targets for key ratios puts upper and lower limits on the performance.
- Forecasting Financial Performance:
  - The past five years income statements are averaged. The average is applied to the most recent balance sheet and used to forecast the financial position five years into the future.
- Financial Performance – Scenarios:
  - Using the farm's past and forecasted financial performance as a baseline, and using the financial targets that are set, families can measure the impact that different business scenarios will have on the farm and family's financial performance. This information is used to help make the best decisions possible.

3.3. Management structure

- Governance:
  - Planning must include discussion on governance or how the farm will be organized and managed. Governance discussion should include organizational charts in their present and future form (3 and 5 years hence). This is very helpful when determining professional development plans for key family members and farm employees.
- Human Resources:
  - Attention to the farm's human resources is a critically important element in planning. Consideration should be given to employees, their roles and performance. As or even more importantly, consideration must be given to the farmer(s)' own human resource – how they manage their time. Ownership roles, responsibilities and accountabilities within the planning process should be defined.
  - Training and related professional development must be aligned with human resource management.
- Communication:
  - The finalized plan is ready to be shared, as per the direction of the family, with stakeholders, both internally and externally.

3.4. Management plan implementation

Without implementation, there is no return on the investment in developing a management plan. Problems with implementation are associated with the challenges associated with change, as noted in this paper. Building accountability into the management plan helps with implementation. Accountability can be internal, external, or preferably, a combination of both.

Having regular meetings and engaging a management advisor are the most effective ways of making sure a plan is implemented. An annual minimum is two meetings. One in the fall, typically at the end of the production season. The other in the winter. The fall meeting follows an annual general meeting format with reports to owners and stakeholders. Strategic direction is reviewed with enhancements made as required and as situations and circumstances change. The winter meeting focuses on financial performance and management structure. Past year financial performance is tested against targets and forecasted baseline performance. Management structure is reviewed in the context of the financial performance. Less than desired performance is analyzed with changes in management structure incorporated into the plans for the coming year.

The ongoing process of reviewing performance and testing against goals and targets keeps the management plan current and therefore, relevant. It provides context for decisions that need to be made to best ensure that the strategic direction is maintained.

Another longer term, and associated, outcome could be the farm's ability to utilize an external management resource – a farm advisory board. Accountability to an advisory board can also assist with implementation.

4. Conclusions

One of the most important outcomes to developing and implementing a management plan is ensuring longer term and sustained business, personal and family success. The importance of applying a more formal and rigorous planning approach to managing farms in the current, global environment should not be understated. The reality is that the majority of farms have no formal plans at all. The absence of any formal planning hierarchy does not, in itself, result in failure. However, as farms continue to advance through their business and family lifecycles, they need to re-focus their attention. Many will intuitively know that they need to make some changes in their business management functions.

A detailed process that aligns timelines and expectations, outlines what needs to be done and in what specific order and, integrates an implementation function helps farm families attain success.

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