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Business IQ Applications and Economics

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In recent years, I have introduced the business IQ scorecard during speaking events and in this column. This 15-question management assessment is gaining momentum amongst lenders, producers, Extension professionals, and farm business consultants. How can this objective tool be used more effectively in proactive management? Do the financial outcomes support the scores?

Let's start in one of my favorite stops on the speaking circuit to examine these questions. After an event in Mankato, Minnesota, a lender shared an interesting story. A producer was seeking a debt restructure due to cash flow issues. The lender suggested that he develop a cash flow and asked him to complete the business IQ assessment. The farmer's response was that he could not complete the cash flow due to the uncertainty of production, prices, and costs. Next, he rolled his eyes and suggested that the business IQ was academic busy work. The lender advised that the producer find a new home for his loans!

The business IQ can be a great tool to screen for the attitude to improve. If I am working with a farm business family and they have no interest in completing the assessment, then it usually is a waste of my time to consult further with them.

To be the most effective, each family member, partner, and stakeholder should complete the business IQ separately. This reduces the chance that one member will dominate the outcomes and ensures that everyone's input is heard. Recently, I was working with a farm family and the son had little interest in completing the assessment. He stated that he was focused on production, not the business side of the operation. This was a quick indication that his attitude and perspectives may be a red flag in the future.

Next, this tool is great for prioritizing improvements and other changes. When making improvements, limit the number of recommendations to three to avoid the producer from feeling overwhelmed, sometimes called the "Babe Ruth Rule" because his jersey number was three.



The business IQ can be effective for improving communications both inside and outside of the business. For example, it is helpful when communicating to a lender your priorities or plans for improvement. It is also useful for creating buy-in with team members, particularly if their input appears to be valued. Finally, this assessment is a great way to measure progress year-over-year.

Recently, a young, Midwest family, who had completed the business IQ four years ago, shared specific areas of improvement that allowed them to improve their score by five points. They also indicated that their bottom line improved significantly as a result of more focus, discipline, and following the process.

Economics and Financials

A seed of interest was planted at the Southeast Ag Lenders School (SEALS) that resulted in a study to determine if a correlation exists between business IQ scores and financial outcomes. I suggested to Ben Isaacs, a senior at the University of Kentucky attending SEALS, that this would be a great study. He took the bait and analyzed a group of financial statements from the Kentucky farm business records, which are high quality and accrual adjusted. Next, he had the same producers complete the business IQ assessment. The following are just a few of the highlights from this special study.

He divided the business IQ scores into high, median, and low groups. Overall, the scores were a little higher than what is observed nationally because these producers were enrolled in a farm management program designed to improve their business management. The outcomes showed that there was a relationship between business IQ scores and the debt-to-asset ratio. The bottom one-third of producers with the lowest scores had approximately three to four times more debt.

When the business IQ scores were compared to the four-year trend data for return on assets (ROA), the results were more interesting. The median and average return on assets for the top one-third of business IQ scores were 2.25% and 3.16%, respectively. Contrast this to the bottom one-third of business IQ scores with a median and average return on assets of negative 0.20% and 0.173%, respectively. The overall returns for all participants were low due to the challenging agriculture economy in recent years.

The results of the four-year trend for accrual-adjusted net farm income were more compelling. The top one-third of business IQ scores reported median profits of \$109,947 and average profits of \$202,150. At the other end of the spectrum, the low one-third of business IQ scores generated median profits of \$14,349 and average profits of \$53,406 over the study period. Ben also found that all three areas were statistically significant at a 95 percent confidence



level when statistical analysis was applied.

Although a pilot, this study will hopefully lead to bigger aspirations for Ben such as expanding this research into a graduate study. This objective measure of business IQ, though not perfect, provides a framework and economic validation that a management mindset does make a difference. While not guaranteeing success, the business IQ scorecard is a tool that can help lenders, farm management instructors, consultants, and producers working side-by-side to put the odds of success in your favor.

