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Agricultural Finance and Small Business Management

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Key Management Proficiency Indicators: How Do You Stack Up?

By: Dr. David M. Kohl

Many of you benchmark your business to the FINBIN data and individual farm management instructor's summary reports. Let's go a step further and conduct benchmark analysis as it pertains to key management proficiency variables or best management practices. The standard will be set high as comparisons will be drawn from participants in the Executive Program for Agriculture Producers (TEPAP) headed by Dr. Danny Klinefelter of Texas A&M University. Attendees' businesses generally generate above \$1 million in revenue, and this year the group was from 25 states and Canada. By the way, 60 percent of this year's class was less than 42 years of age.

These lifelong learners have a focus on improving the bottom line and their lifestyle by implementing best management practices. They are not the biggest producers, or maybe not the most profitable, but they represent agricultural businesses that would be considered the "best of the best." Conducting these comparisons allows one to confirm what you are doing well and identify areas for improvement. Now let's begin by finding out what key practices this class of producers had in place or were working on. Management perspectives and points will be discussed as we unveil the list of proficiencies. Credit for the summary results goes to Dick Wittman, a well-respected farm business consultant from Idaho who conducts the summaries each year.

Mission and Core Values Defined

Defining a mission statement and core values for which you stand are critical management proficiencies for any business. Surprisingly, 42 percent of TEPAP participants this year had a mission statement and core values in place, and another 25 percent were working on it. Mission statements and core values are important because any major decision made in your business should be tested objectively to ascertain whether or not it is in alignment with your mission and core values. Many issues occur in businesses and families when decisions are not in alignment, creating financial and communication challenges. When



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developing a mission statement, keep it to 40 words or less, and identify no more than four bulleted points for core values. If multiple owners and managers exist, have each one write out key statements and words. When comparing each individual's list with the group, generally you will find about 80 percent will be in concurrence. The other factors will need to be negotiated.

Short-Term and Long-Term Goals

A disappointing result of the survey was how few businesses had written short and long-term goals in place. Approximately 20 percent of the group had written short-term and long-term goals. However, this should not be surprising since approximately 80 percent of Americans have no goals, while 60 percent keep them in their mind, and only 4 percent actually have written goals. Our “best of the best” producers’ results were five times better than the typical American population. Setting goals and writing them down is the heart and soul of business planning. Doing this exercise delivers a mental picture that can provide a format, discipline, and follow through that is needed to excel. To provide balance in business and life, think about the six degrees of goal setting: business, family, personal, mental, physical, and spiritual.

Strategic Plan

Management advisors often discuss the importance of strategic planning with strategies and action plans for achieving goals. How did the “best of the breed” in agricultural management stack up? Approximately one in four had a strategic plan in place. Over half indicated that it was not done, but it was definitely needed. Whether it is a start-up, an evolving business, or one in transition or exit, a written strategic plan is critical. In our dairy farm and creamery business, the written strategic plan has assisted us in communicating with our lenders but, more importantly, amongst owners, managers, stakeholders, and employees. A strategic plan is more than a financial plan. It includes operations, risk management, financial management, human resources, and, in some cases, a transition plan. The initial plan may take a fair amount of time and effort to put together, but it can be quickly updated once the original strategic plan is created. Family businesses with multiple partners or young, evolving, growing farmers need to keep this key proficiency top of mind.



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Financial Management

Now how does the TEPAP group compare in the financial component of the business? Over 95 percent had developed a market value and cost value balance sheet. It was impressive that three quarters of the group had accrual-adjusted income statements. It was disappointing that only slightly over half had developed cash flow statements, and surprisingly over 40 percent use enterprise budgets and comparisons. In the next five years as agriculture experiences more volatility and economic moderation, enterprise budgeting and cash flows will assist in allocating capital, time, and effort to the enterprises that earn the largest returns. Less than half of the group was conducting financial analysis using key ratios. This was very surprising given the size and scope of the businesses represented.

Communications

Communications will usually be listed as one of the most challenging management proficiencies in modern day agriculture businesses. Regularly scheduled meetings (daily, seasonally, quarterly, annually) are often a remedy for poor communication. Just over 40 percent of the group expressed that the business had regular meetings. As your business grows and evolves, this practice can be valuable to owners, spouses, management, employees, suppliers, lenders, and the community in general. However, two headwinds to this important variable are multitasking and modern-day technology. Sometimes you need regular face-to-face meetings with a “technology sabbatical” or “unplugged time” to have a more enriched, focused experience and outcome.

Critical Agreements

Do you have wills, estate plans, partnership agreements, operating policies, and rental/lease agreements in place? Are they periodically reviewed and updated? The TEPAP group was lacking in this area of management with only about one-third indicating that they now have these documents in place. Often these critical agreements lie in the weeds and have a low priority until a black swan surprise or unusual event raises its ugly head. These agreements take time to develop but they can save a good deal of strife in the long run. They should be kept in a location with easy access to key stakeholders of the business.

The purpose of this article is to stimulate critical thinking about your business and your life. Even the “best the best” have Achilles’ heels, which is quite obvious in the survey results with areas for improvement. The agricultural landscape of the future will require better business acumen. Now let’s see how you compare by filling out the following table.



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Mark each proficiency as yes, no, or in progress for your business, and benchmark your results with the TEPAP group's results in the "Best of the Best" column.

Proficiency	Best of the Best	Yes	No	In Progress
Mission Statement & Core Values	42%			
Business History	48%			
Goals, short & long term	21%			
Operating Plan	47%			
Strategic Plan	27%			
Standard Operating Procedures	20%			
Regular Meetings	43%			
Critical Agreements	35%			
Balance Sheet, cost & market value	97%			
Income Statement, accrual-adjusted	76%			
Enterprise Budgets	44%			
Cash Flow Budgets	52%			
Key Financial Ratios	43%			
Policy – Investment capital withdrawals	21%			
Policy – Dividing earnings among management & owners	39%			



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