

AUSTRALIAN FARM BUSINESS PERFORMANCE – INSIGHTS FROM EFFECTIVE FARM BUSINESS MANAGERS

This national study aims to improve farm business performance using a reflective self-assessment tool to assist farmers to evaluate their business performance, and to prioritise strategies and tactics improving farm performance. The Farm Management Strategy Tool is based on insights into strategies and tactics used to achieve performance goals from the perceptions of a large and diverse sample of farmers who are seen as relatively successful by their peers and industry leaders.

Agricultural producers have comparatively little control over the prices received for their goods, with many if not most industries having strong production competition and few buyers of the untransformed products. Despite extensive research and government initiatives to improve the productivity and profitability of Australian farms, farm business viability remains a major issue across Australian agricultural industries. There remains a significant ‘tail’ of producers who are considered financially at-risk. On the other hand, there are 20 to 25 percent of producers who achieve higher rates of return.

In the middle, between the at-risk and highly successful farmers, there exists a large group of Australian producers that could become more or less viable, depending on economic and climatic conditions and on management decisions. The wide range of financial performances within industries with similar available technologies, even for same-scale operations, suggests that management decisions may explain at least some of the differences. Therefore, this study focusses on management approaches and priorities.

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WHO IS INTERESTED?

The potential audiences for and applications of this research include:

- Australian farm businesses operating across a broad range of agricultural industries, scales and regions are the primary audience for this research.
- Industry stakeholders and advisors working with these farm businesses are expected to find the project outputs useful in the provision of strategic advice.
- Industry bodies may use insights into the strategies and tactics of farmers who are perceived to be successful to support the development of targeted industry strategies and plans helping to improve industry performance over time.
- The insights from this research can inform policy makers in designing farm performance initiatives that meet farmer perceptions and goals.

INDUSTRY RESULTS AND ANALYSIS

The report summarises producer perspectives on management strategies, seen as important by the farmers, such as growth, consolidation, rationalisation, reinvestment and human capital development that are implemented over the long term.

» *Common Strategies*

The research considered three basic strategies:

- Growth
- Consolidation
- Rationalisation

The strategies are usually cyclical and producers may move from one to the other depending on conditions at the time. The most common strategy involves growth of the enterprise, followed by consolidation after a period of growth, and lastly a rationalisation strategy during adverse conditions.



A growth strategy was usually linked to the desire to develop the business. Other motivating factors included succession planning and lessening the overall burden of fixed costs within the business. A growth strategy is consistent with high levels of reinvestment into the enterprise. Those participants pursuing a growth strategy saw the enterprise as their number one priority in the short run and family in the long run.

Consolidation often follows a phase of growth within the business. There generally needs to be a settling of the system after a substantial change has taken place.

In stark contrast to many of the businesses involved in the research which were looking to expand, a number of enterprises were conducting strategies to rationalise their business. This strategy was generally adopted as a result of people being at a stage in life where they wished to contribute less labour.

» *Industries in the study*

The research analysed each industry individually and further sectioned each industry by region where appropriate. A more complete analysis is included in the full report by sector and includes numerous supported quotes from participants.

The sections analysed include:

1. Grazing industries – Northern Grazing; Southern Grazing; Western Grazing.
2. Intensive livestock analysis – Pork, Egg and Chicken meat.
3. Sugar industry
4. Horticultural industries – Vegetable industry; Fruit Tree industries; Tree Nut
5. Grain and cotton industries – Northern Grain and Cotton; Southern Grain; Western Grain



ANALYSIS BY SCALE OF ENTERPRISE

Farm scale has been identified as a factor influencing performance outcomes and can influence the adoption of innovation. This research explores the relative importance placed on various themes by participants according to the relative scale of their businesses.

While there was some variability in the order of how themes were prioritised by participants, there is very little difference in the themes across small, medium and large businesses. That is, the same top four issues were important regardless of scale.

The same five themes were the top priorities for small and medium businesses:

- information
- planning
- production
- risk
- family.

These themes were also important to large businesses enterprises with only one variation in that metrics were ranked as being slightly more important for large businesses than risk.

Understanding Farm Performance

In order to fully understand the multiple dimensions of farm performance participants were asked to describe farm performance. Word frequency tests were performed to gain a broad understanding of the terminology used by the producers.

Analysis of producer responses demonstrated that not all producers consider financial profitability to be the key measure of performance. Farm performance is a multi-dimensional concept that is influenced by producer characteristics and evolves along with their circumstances, but it can be considered as having at least three dimensions:

- **CONTINUITY:** This incorporates business sustainability, or more correctly sustaining the business through production over all time periods as well as financial certainty, a strong family unit and continuation of family ownership.
- **SOCIAL DIMENSIONS:** Family underpins the success of the business and this is tied to valuing employees and customers and building strong relationships with them.
- **BUSINESS ATTRIBUTES:** Production and an emphasis on yield and efficiency are underpinned by recognition of holistic financial factors in setting goals. Both quantitative and qualitative performance indicators are used to guide decision-making but judgement and experience can complement or override those.



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Farm Management Strategy Tool

A key outcome from this research is the development of the Farm Management Strategy Tool, a framework to enable reflection by producers, on business management decision-making. This is a preliminary model that will be developed further as a part of future research. Whilst an outline of the tool is provided below the full report should be read to gain a full understanding of the model.

“ Farm Management Strategy Tool incorporates a decision matrix which focuses on key dimensions of performance identified by farmers and can be used by farmers to identify strategies and practices that they can improve and refine ”

Farm Management Strategy Tool incorporates a decision matrix which focuses on key dimensions of performance identified by farmers and can be used by farmers to identify strategies and practices that they can improve and refine.

The framework comprises sets of categorised questions which can be worked through by the producer. It is not a checklist or decision tree – questions are designed to prompt the producer to look at the practices that other producers have found useful.

The Tool provides a range of prioritised options that can be considered for further investigation but no specific action is prescribed. It is designed to be an on-going reflective exercise, as producers implement their chosen options they can use the framework to reevaluate their priorities and consider future options.

The factors addressed in the questionnaire are categorised as follows:

1. **Strategic** – focus on activity where the producer looks forward 3 to 5 years. This focuses the producer to consider the long term direction of a business.
2. **Tactical** – complement the strategic ones, but generally relate to shorter timeframes of one year within the 3-5 year strategic outlook.
3. **Business** – focus on production, markets and financial returns. It also looks at what could prevent the producer from furthering their goals.
4. **Social** – allows the producer to consider the people both inside and outside the business.
5. **Operational** – focus on improving business performance.

The tool provides a questionnaire that asks a producer to complete and answer the questions based on the importance of each for their own business.



» *Research Insights*

1. Management priorities vary across industries and in some cases between regions. Hence, efforts to enhance or support farm business decision-making may need to be tailored accordingly.
2. Though some of the respondents make use of performance indicators, there is still a widespread reliance on 'instinct and judgment'. Hence, there is some question as to the value of developing formal decision support tools that are primarily based on conventional performance measures.
3. Many respondents were conscious of the importance of other parts of the supply chain with a number of producers conscious of the need for profits and good relations along the chain.
4. Relationships and networks in general are seen as important and while the causal inferences are uncertain, advisors and policy makers could consider the importance of social capital in assessing the situation of a producer or a region and in supporting management capacity.
5. There appears to be a need for some caution in considering increasing scale as a growth strategy. While most of the respondents see the importance of increasing the scale of operation, at appropriate times (weather and markets) or at life stages, consolidation and a reduction in intensity (of inputs) may be relevant business goals.
6. Diversification appears to be an important option for many of the producers but it can be done for a number of reasons and to a greater or lesser extent.
7. A significant variation was evident between participants in terms of financial literacy. It is likely that any deficiencies in financial knowledge have been overcome by these producers as a result of their expertise in operational aspects. Operators with less financial acumen and less favourable conditions may experience more adverse outcomes associated with poor financial literacy.

IMPLICATIONS

The purpose of this research was to derive a more generic and producer driven framework to enable operators to assess their own performance in relation to individualised priorities and objectives. The Farm Management Strategy Tool represents the key outcome of the project.

» *Future potential actions which could be considered include:*

1. A future pilot study of the Farm Management Strategy Tool would be valuable to assess the usability of the framework from a user perspective and refine its design.
2. Business support programs, advisory services and tools need to recognise the fact that producers are likely to balance multiple goals.
3. The enhancement of programs and structures that facilitate supply chain engagement may be beneficial with enhanced programs and industry organisational structures that build and maintain understanding and engagement along agricultural supply chains.
4. The development of models for collaborative business practices could benefit producers with participants in this study demonstrating differing approaches to collaboration.
5. Future programs could be developed to investigate educational opportunities for financial literacy courses and explore mechanisms for delivery of such courses.

METHOD

This qualitative research project uses case study methodology. In-depth interviews were conducted with between 6 to 18 participants for each of the five agricultural industries providing a total sample of 80 case studies. Purposeful sampling techniques were used to ensure coverage across industries, geographical regions and farm scale.

Sample selection was supported by the outcomes of preliminary focus groups and guidance provided by an Industry Reference Panel made up of representatives from industry, government, research agencies and universities.

Key Research Steps

The research questions for this research are aimed at providing insights into ways to improve the performance of farm businesses from the perspective of farmers who are seen as highly successful by their peers and industry.

The research questions addressed are as follows:

- How do farmers who are seen as highly successful by their peers and industry define farm business performance?
- What strategies do farmers in this research utilise to operate their farm businesses?
- What are some of the tactics and priorities of the farmers sampled?
- What are some of the differences between the strategies and tactics and scale within industries?
- What are some of the differences between the strategies and tactics of farm businesses across industries?

By recording their thoughts about farm performance the research grounds its results and recommendations in the understanding these producers possess. Each interview was recorded, transcribed and coded for analysis.

The Rural Industries Research and Development Corporation (RIRDC) invests in research and development to support rural industries to be productive, profitable and sustainable. RIRDC's National Rural Issues program delivers independent, trusted and timely research to inform industry and government leaders who influence the operating environment of Australia's rural industries.

This research:

- Informs policy development and implementation
- Identifies future opportunities and risks
- Covers multiple industries and locations

RIRDC invests approximately \$1 million per annum in the National Rural Issues program and attracts other investment and partnerships to undertake research that supports cross sectoral and national decision making. From 2015, RIRDC will host an annual Agricultural Policy Roundtable to identify emerging opportunities and issues that independent, trusted and timely research could contribute to.

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Full report

This document provides a summary of the findings and approach used in the development of 'Australian Farm Business Performance - insights from effective farm business managers'. A separate full report document has been prepared with the details of the analysis undertaken in the project and is commended to the reader for further information in support of the issues outlined in this document.

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