

## Board up to boost performance and reduce risk

Adopting a formal board structure can improve the performance of family farming businesses and reduce compliance and other risks, according to Bill Winter.

“Australia-wide research\* shows that businesses with a board out-perform those that don’t operate in this way but only a third of rural businesses have a formal board structure,” he said.

“A family business has the same legal obligations as a major corporate entity and the potential of a board to reduce risk and improve business performance suggests that implementing a board structure should be high on the agenda of any family business operating without one.”

Many individuals involved in family farming businesses do not understand that they are company directors and are not aware of their obligations and responsibilities as directors, which places an onerous risk burden on the family business, he said.

“All businesses are required to meet mandatory governance and financial standards and the penalties for non-compliance, whether intentional or not, are enormous.

“One family company was recently fined \$1million for compliance breaches following the death of the patriarch who was the only one who understood how the business was structured and operated and what was required.

“An effective board could have avoided the situation that led to those penalties being imposed.

“Given the importance placed on compliance today there is a clear need to apply corporate-style disciplines to running farming businesses.”

Mr Winter, a presenter for the Australian Institute of Company Directors and principal of Bill Winter Advisory, suggests family businesses address compliance risk by having at least one member of the family complete the Australian Institute of Company Directors’ course to ensure they understand their obligations as a company director, whether or not the business operates with a board. But he has no doubt that most family companies would benefit from formalising a board structure with at least one director from outside the family.

“In my opinion the potential to reduce risk plus the benefits of having someone around the table who can provide a different perspective and is prepared to ask relevant questions mean farm and other rural businesses cannot afford to operate without a formal board with at least one independent director.

“Family businesses are often all about emotion and relationships but they are still businesses that are aiming to generate a profit, and input from an ‘outside’ director, ideally with relevant business experience and knowledge, can significantly improve business

performance and help with making the hard decisions likely to be necessary from time to time,” he said.

“One of the primary roles of a director is to ask questions, an essential part of making informed decisions, and it is often easier for an ‘outsider’ to ask those questions than a family member.

“A board is about governance, strategy and policy, and board meetings provide a forum for reasoned decision making about the longer-term direction and objectives of the business. Many family farm businesses fail to address longer-term issues because they find it hard to find either the time or a forum in which to consider them.

“Many farming businesses are dominated by one or two senior members of the family who struggle to come to terms with the expectations of the next generation, despite the fact that those younger family members are likely to be university educated and have a better understanding of governance and compliance issues.

“Adopting disciplines like scheduled board meetings and structured reporting and decision-making processes can open the way for valuable input from family members beyond the key one or two decision-makers that often dominate family businesses.”

A board structure can also enable a business to continue in the event of a key individual dying or having a serious accident because those around the board table will have at least a general understanding of the business and its goals and objectives, Mr Winter said.

“There is a lot of up-side and very little down-side to adopting a formal board structure for a family farming business apart from some extra cost, which Australia-wide research suggests is likely to be covered by improved business performance due to better, more objective decision making.

“Discussions around a board table are confidential, so there is little or no risk around intellectual property or family relationships.



Figure 1. “OK, all those in favour of delegating decision-making, shrug your sholders”

“Nor is there any risk of an outside director or directors changing the shape or character of the business without the agreement of the family members around the board table, particularly if the culture and core values of the family and the business are built into the formal goals, objectives and policies that govern how the board and business operate.”

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**\*2013 Family business survey conducted by KPMG and Family Business Australia, <http://bit.ly/15tIY14>.**

## More than one way to access growth capital

Access to capital can be the difference between success and failure in agriculture as in any other business, said goFARM Australia director Liam Lenaghan.

Rural producers have traditionally relied on retained earnings or debt funding as sources of investment and development capital, Liam said, but the amount of capital available from these sources is often relatively limited and can inhibit growth of farming businesses.

“There are other capital resources available and structuring a farm business so it is ‘investment ready’ can open the way to access capital from sources other than the farm or the bank that can enable farm businesses to expand and significantly improve returns on investment.

“To attract external capital a farm business needs to have characteristics that appeal to potential investors. These include potential for a realistic return on capital and a structure, or scope for restructuring, to accommodate an investment arrangement.

“Investors are likely to be attracted to quality, well-structured farm businesses with consistently good earnings, a talented, proven management team, good data, quality natural resources, good scale and a specialised commodity focus.

“Good growers are highly-skilled risk managers, people managers, crop managers, logistics co-ordinators and grain marketers and their enterprises typically have enormous investment potential.

“However, to capitalise on that potential by actually attracting investment capital a business needs to be open to the idea of outside investment and be prepared

to modify aspects of the business to meet the needs of investors while achieving its business objectives.

“An investment arrangement needs to benefit the investors and the farm business.

“Some growers see risks in accessing capital from external sources, with one of the issues being how long an investor will commit funds for, but I take the view that the initial commitment to invest is the important thing.

“Once the investor is involved, improving the performance of the business and generating a good experience for the investor will in most cases ensure the funding remains in place for the long term.

“Provided the terms of a funding arrangement are clearly set out and understood by all the parties involved there is little to fear and potential for significant benefits for everyone.”

The specific structure of an investment agreement will be influenced by the way in which the investor engages, Liam said, and each model and structure carries a different level of risk and expected return.

“Some investors will finance investment in land, infrastructure, plant and equipment. Others will provide capital in the form of trading finance to fund agricultural production.

“One recent example involved acquisition and development of five contiguous farms in southern NSW. This arrangement generated significant investment reward for the farming partner and the investor, with the farm operators able to subsequently increase the scale of their enterprise and the investor having additional capital to roll into other investment opportunities.”

The structure of the arrangement included a lease mechanism with the grower operator contracted to manage the aggregated farm business that ensured the investor had a secure return of about 5 per cent on the capital invested from annual lease payments in addition to capital appreciation through development and improvement of the property, Liam said.

“Benefits to the grower manager included an increase in scale and opportunities to build equity in the improving land asset by achieving the milestones set out in the lease agreement that specified an equity transfer to the grower each time one of the specific development goals was achieved.”

In another case, a grain-growing business doubled its land holding from 4,000 ha to 8,000 ha without increasing its debt burden.

“This involved a triangular arrangement in which a stand-alone financial entity was established to acquire the extra land using capital from the grain producer and third-party investors.

“Investors were attracted by the grain producer putting in their own money, access to a stable return provided by the grower leasing the asset from the financial entity and capital growth expectations underpinned by a clear pathway to asset improvement set out in the management arrangement,” Liam said.

“As a result the investors gained access to an investment-grade asset that might not otherwise have been available to them and the grower secured a significant production gain plus an opportunity to acquire the asset from the other investors at a future point, thanks to a first right of refusal clause included in the funding agreement.”

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## Awareness the first step to building resilience

Several simple, but not easy, steps can do much to build personal resilience, leading to better business decisions and improved personal relationships.

According to psychologist Dennis Hoiberg, founder of Lessons Learnt Consulting, acceptance, changing your self-talk, staying involved, getting comfortable with your feelings, surrounding yourself with positive people and looking after yourself all contribute to personal resilience, with accepting life, and farming, for what it is being the first step.

“The natural, production and personal challenges faced by growers and their families mean that everyone who lives and works in the agricultural sector is going to feel some level of anxiety, sadness and depression at some time,” Dennis said. “The issue is how we chose to respond to these challenges.

“We need to accept that life is tough and develop the ability to understand our reactions to our experiences and strategies to deal with what we encounter. These strategies build emotional and psychological resilience.”

The following are some of the more effective steps towards developing resilience, he suggests.



**Figure 1. Five key strategies to help experience emotional resilience.**

- Accept where you are in life and what life is throwing at you. Learn to identify what you can and can't do and don't waste energy on what you can't. If you feel overwhelmed, try to identify aspects you can address, so you get some positive return.
- Listen to your inner voice, and edit your self-talk. Listen to how you and others talk about yourselves. If this self-talk is negative, as it almost invariably is, challenge it and where possible reframe it. Negative self-talk is likely to negatively influence your actions and how other people interact with you.

I have had smart, successful growers running very successful small businesses, with advanced negotiation and practical problem-solving skills and a high work ethic describe themselves as 'broken-arse farmers'. They have overlooked their skills and abilities and their negative self-talk has become so forceful and overwhelming they have started to believe their own rhetoric.

Simply reframing your self-talk won't make problems or challenges go away, but may move you away from a flight/fight/freeze response to problem-solving behaviour.

- Stay involved. Look for ways of being connected with the community through work, volunteering, sporting clubs, charities, clubs and so on.

People commonly withdraw into themselves when they experience bad times. It is critical to keep involved for many positive reasons - the ability to contribute, to be valued and, critically, to maintain perspective. The more people you interact with,

the greater the likelihood you will meet people who have experienced, survived and grown through similar experiences to those you are experiencing.

There is also scope to engage with the virtual community. Used properly, social media like Twitter, Facebook, LinkedIn and so on can be valuable tools.

- Get comfortable with feelings. We all go through good and bad and it is important that we can articulate our emotions, whatever they may be.

There are heaps of self-help books on this topic and the techniques are simple, but still hard to use. However, it is highly beneficial for everyone, including blokes, to get comfortable with their feelings and be able to express them.

- Surround yourself with positive people. One of the amazing things about life is that positive people attract positive people, with all the benefits of that, and negative people attract negative people ... and everything that goes with that! Make the choice to be positive and reap the benefits.
- Look after yourself. If you can't look after yourself you can't look after your mates, your family or the business.

Your health is your most important asset. Schedule visits to a doctor and dentist at least twice a year, every year, and look after yourself. Try to get enough good-quality sleep. Don't smoke. Do exercise, drink water, watch what you eat and have at least a couple of alcohol-free days a week.

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