

Corporate model not fit for farms

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IN SEEKING the ideal governance model for farm businesses Nuffield scholar Tom Skerman admits he would not have considered his own model from the past as the ideal benchmark.

His Nuffield study looked at just how applicable corporate type governance might or might not be for farming businesses.

That included examining how appropriate the traditional agency approach was and comparing it to a less top-down, resource approach.

He admitted his own farming partnership of 15 years with his brother was “probably determined by an absence of either”.

Nevertheless, it was successful, bringing gains for both and winding up when Skerman decided to dust off his unused law degree, don a suit and start practising law in Hawke’s Bay. That intersection of practical farming experience and law meant he gained a first-hand insight to how farm businesses – the good, the bad and the ugly – worked.

His decision to study agribusiness governance for his Nuffield subject was prompted



ILL-FITTING: Corporate governance models don't necessarily fit with the priorities set by farming families, lawyer and farmer Tom Skerman says.

by his initial belief many farm businesses could be improved by adopting more formal governance systems, as typically found in corporate businesses.

“It seems looking back over recent years this subject of governance has become quite trendy for farm businesses. That’s come in part from the

tremendous volatility the sector has experienced, resulting in some amazing success stories and some spectacular failures.

The heart of his work came with a realisation that traditional governance structures were not always the best solution to bring out the best or better in farming businesses.

“It took a while but I came to realise that those traditional structures are designed for organisations with clear separation of ownership and management.

“In farming businesses that are often successful already they are run instead around kitchen tables by benevolent dictators and their husbands.”

It was a set-up common where the chief executive was unsackable, the management inseparable from governance and often commercial drivers could and would come second to family, culture and personal values.

Instead, he came to discern a “green zone” governance in many farming businesses as being more successful than traditional board or agency approaches.

“Green zone governance provided a grassroots engagement that seeks to please all the parties first and doesn’t always

put business first. It’s a nuanced approach to governance, one that sets aside the traditional preoccupation with control and compliance in favour of service.”

Skerman acknowledged the work and observations of Massey University management school senior lecturer Dr James Lockhart who noted governance was now seen as the general panacea for business performance.

Skerman said the preoccupation with control and strategy could override any focus on service or getting resources to the people running the business to add real value to it.

When consultants, bankers and advisers might be preaching the need for farm businesses to have a clear strategy and pull their vision together over day retreats and intense whiteboard sessions, Skerman was more sceptical.

“Strategy for corporates is set to ensure management and owners are aligned. But in an agri-business SME do you need to prove it to yourself? And if you do, has it been a good use of your time or are there better resources that could be allocated to you to help you run the business better?”

Lockhart said in many cases governance applied in the wrong context risked becoming

“management on steroids”.

For Skerman a business’s culture far outweighed any grand strategies it might have in place.

“You might have a killer strategy but it is of little use if you don’t have the team to execute it – so strategy is great but what is the priority? I would rather have a simple goal and a great culture.”

Because those teams were often small, he recommended using the “resource theory” approach, where the strengths of individuals were supported or developed by having people who were professionally or personally qualified to collaborate with them.

“But you have to be careful that governance does not become consultancy in drag.

“Sometimes this help may come best through a project the farm business is starting, bringing in some expert advice as needed.

“It is a good way for people to just test how they like having other people around the table.”

“It is not a small task to embrace governance. It can be expensive paying for people to come and develop strategy and advice. It may be that you are better off investing the time and money in better financial systems or processes that help the existing structure run better.”