

Where Are You On The Governance Journey?

Introduction

Governance is often seen as the domain of large corporates. However there are significant advantages which good governance also brings to smaller family farming business. The principles and disciplines of governance can be developed and applied to all businesses sizes, and the earlier these habits are learned, and the more they are practised, the better the businesses will perform and grow.

The value of good governance

At the very core of good governance is better decision making so that:

- 1) The risk of complete business failure is minimised and the chance of on-going business success is maximised.
- 2) The likelihood that a business delivers what the owners want out of the business is increased.

This because the key actions leading to good governance have been addressed and they are:

- 1) Clarity and agreement by the owners of the values, purpose and objectives for the business.
- 2) Agreement on the objectives and specific actions of strategic plans looking out 3 to 5 years ahead.
- 3) Agreement on annual business objectives, targets and operational plans.
- 4) Clarity of organisational leadership with clear roles and responsibilities, and with proper delegation of the authority to fulfil that role.
- 5) Transparent and timely systems of accountability, reporting and benchmarking that are then used to improve the performance of the business.
- 6) Business risks are identified and an appropriate response made.

Implementing good governance is a journey

As your business grows and more people are reliant upon that business the governance requirements change. This will mean changes in the skills that you and others in the governance group will need, as well as changes to the formality of how you do things and involve other people in your business.

The self-assessment following is a way of understanding where your business governance stands currently as well as indicating to you the possible next steps and areas of focus.

Please print the self-evaluation, fill it out and file it, and refer to next year.

Date _____

Where are you on the governance journey – a self assessment

There is no right or wrong – governance is a journey.

All the options presented come from what is actually happening in NZ dairy farming businesses.

Tick the box(s) that best describes the current situation for your business.

1. Investing time to reflect on the business

	I mostly do it while I am milking or driving the tractor or driving round the farm etc.
	I have a holiday each year and think about the business then.
	We regularly have time away from the farm and children to reflect on the business
	We have a stakeholder meeting each year which includes our key professionals
	We have a Board (advisory or formal) that meets regularly.

2. Defining the purpose for which you own this business.

	To allow me to be my own boss
	To make things possible for my family but we have not discussed this much.
	We have discussed and agreed what our business has to achieve.
	We have a written purpose of the business and what it has to achieve
	We regularly review our business to make sure it is delivering as required

3. Strategic planning – where your business will be in 3 - 5 - 10 years

	I have no specifics but definitely bigger than now.
	I have it all sorted out in my head
	We have a written down strategic plan and agreed big actions for this year.
	We always refer to our strategic plan when making key decisions
	We involve others in the development of our strategic plan.
	We share our strategic plan and business goals with our staff

4. Roles and Responsibilities – family businesses

	I am responsible for everything
	This is covered by our employment agreements with staff
	We only have family working in the business and we all know our jobs and responsibilities
	We have a written document that spells out the role and responsibilities of each member of the family who are active in the business and we hold each other accountable to this.

5. Business financial risk, monitoring banking agreements.

	My bank manager and accountant deal with that and contact me when required
	I know what my current overdraft is at the end of each month.
	I know what my interest cost / kg MS is and the ratio of fixed and floating mortgages
	I can also tell you what our interest cover is, our average cost of funds, and our debt to equity ratio.

6. Business investment decisions

	When the farm next door comes up I will buy them out.
	I follow the recommendations of my banker and accountant
	We carefully look at what the next purchase will do to our debt equity ratio and our interest costs and make sure that we can afford it.
	We make sure that the investment fits with our strategic plans and that a conservative estimate of the profit will exceed our target investment rate of return.

7. Reviewing operating budgets

	I check production regularly to make sure it is up to or exceeding budget
	I check my bank balance and production each month against the budget
	I keep a cashbook so I can monitor my income and each cost area against my budget
	I do all the above and I revise our position so I have an estimate of the end of year financial and production position.
	I also revise our operational plans so that we are more likely to achieve or exceed the profit target for the year.

8. Benchmarking business performance

	I benchmark production performance
	I benchmark both operational and financial performance
	All of the above plus we have an independent assessment of our people management.
	All of the above plus we have an independent assessment of our governance

9. Business continuance – what would happen if we were out of action for a year?

	Who cares
	We have insurance to cover this and our lawyer/ accountant / farm advisor has instructions that will deal with this.
	We have the above plus an easy to read operations manual and a “Guide to the living” (Appendix 2) should the worst happen.
	We have a governance group already and they have the authority to make the proper decisions in our absence.

10. Succession Planning and the future

	We have no plans for succession in or exit from the business
	I did a will some time ago and have life insurance that takes care of things
	I update my will and life insurance whenever I buy another property
	We have been through a process to develop a proper succession plan
	We review our business structure, life and key person insurance cover, wills and succession plans annually
	We have done many of the previous actions and now also have a company structure and a formal board.

Reflect upon the options that you have ticked.

- Are there one or two questions where the options you have ticked are less developed than most of the other options you have ticked?
- How will you address this over the next year?

Make a plan and then do this evaluation again next year.