Governance in Family Farming Businesses:

How well is it understood and what is the potential?

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Executive Summary

Family farming businesses make up a large proportion of agriculture production in New Zealand. The size and scale of these businesses have been steadily increasing. They have now become medium-scale businesses with large financial commitments and a mountain of compliance and regulation to contend with.
In the corporate world, the concept of governance is spoken about often, but how well is good governance understood in the family farming business, and, if required, could a better understanding of governance provide opportunities?

The research project's first aim was to investigate what literature had already been researched about governance and its application in agriculture. Then the next aim was to understand what current family farming businesses understood of the concept of governance and whether it was being practised. The ultimate objective was to uncover if improved governance was something that family farming businesses required, and if so, how could it be implemented.

The methodology comprises a literature review to gain a deeper understanding of the concept of governance and how might it be applied in agriculture. From the literature, questions were raised to uncover the attitude and understanding of governance in family farming businesses. Semi-structured interviews were undertaken on family farming businesses and the answers and information gathered were analysed to find the key themes. These key themes identified were then reviewed in conjunction with the literature reviewed to explore possible solutions.

Key findings

- While agency theory is the oldest and most widely recognised theory of corporate governance it may not be applicable to family farming businesses as owners and managers are the same people.
- Resource dependency theory, stewardship theory and stakeholder theory are corporate governance models that uncover opportunities to help family farming businesses grow and thrive.
- Family farming businesses interviewed were only accountable to themselves and considered themselves the key people. They focused on management as opposed to governance and lacked documented plans for their businesses. They rely heavily on insurance as a contingency and have concerns about the future. Last but not least they need to see value from the cost of a third party helping with governance.

Recommendations

- A possible family farming governance model has been designed which is primarily based on resource dependency theory but also incorporates stewardship and stakeholder theories.
- The directors and shareholders of the family farming business (referred to as “Mum and Dad”) continue to run the business as good stewards.
- An advisory board is introduced which includes the accountant, vet and farm consultant already used by the business but with more structure.
- The Advisory board provides advice, counsel, and knowledge to “Mum and Dad” while in return, concerns, ideas, and intricacies of the management of the business are fed back up to the advisory board.
- Information is provided to stakeholders to keep them informed relative to where they fit into the business.

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1. Introduction

Family farming businesses have historically made up a large proportion of the agriculture production in New Zealand and are likely to continue to do so into the future. These family farming businesses have continued to grow, often growing in scale through acquiring additional land which is often neighbouring properties adjacent to their existing operations.

While size and scale have increased via the acquisition of additional land, so too have the debt levels these businesses now carry. These farming family businesses are now more than just Mum and Dad bringing up the kids in an idyllic country lifestyle, performing a job they enjoy that provides an income along with accommodation and flexibility. They have become medium-scale businesses, often employing staff, with large financial commitments and a mountain of compliance and regulation to contend with.

The concept of good governance is something often spoken about in the corporate world. New Zealand even has its own institute of directors whose motto is "Good governance for a strong New Zealand" (NZ Institute of Directors, 2023) But how well is the concept of governance understood in family farming businesses and, if required, would a better understanding of the concept of governance provide greater opportunity to these businesses?

This report aims to research what the concept of governance itself entails then explore what the understanding and attitude of governance is, in New Zealand family farming businesses and investigate if a greater understanding of governance concepts may open up opportunities to help these businesses thrive in the future.

2. Aims and Objectives

The purpose of this research project is to understand more about the concept of governance and then gain an understanding of what family farming businesses attitudes and understanding on the subject of governance are.

Based on the information uncovered the project then seeks to investigate whether or not the concepts of governance can be used by family farming businesses and whether will this be beneficial to help them in the future.

3. Methodology

3.1. Research of the Subject

A question tree (see Appendix 2) was constructed to refine research objectives then a review of the literature on the subject was undertaken. As literature was reviewed questions were raised that would be specific to help uncover attitudes and understanding of governance, specifically in relation to family farming businesses.

3.2. Interviews and Thematic Analysis

Four semi-structured interviews were undertaken on family farming businesses over the period of September and October 2023. Three of the interviews were face-to-face and one was via Zoom. The questions asked in the semi-structured interviews (appendix 1) were a total of 17 questions broadly grouped into the following areas:

- You, your business and your business structure (Seven questions)
- Thoughts, attitudes and perception of governance (Seven questions)
- Your business moving into the future (Three questions)

The answers and information gathered from these semi-structured interviews were then analysed using thematic analysis, which is a method for identifying, analysing and reporting patterns within data (Braun & Clarke, 2006) The questions along with their responses were listed to become familiar with the data. Codes were identified then what codes applied to the responses were marked. These codes were then grouped into themes and explored further. These themes were then compared to what was researched in the literature review to uncover if any possible opportunities arose.

3.3. Limitations of Research

The research project had a short time frame therefore restricting the amount of interviews that could be undertaken. The family farming businesses interviewed were all known to the researcher but chosen to give a fair representation across the industry. Any family farming businesses with a reputation for being experts in the field of governance were avoided so as to not skew information in regards to an understanding of governance. The interviewees were geographically limited to the Tararua, Manawatu and Rangitikei areas based on where the researcher is domiciled. The family farming businesses interviewed were an even split of sheep and beef and dairy farming given they are the predominant industries in the geographical area.

4. Literature Review

4.1. Introduction

The literature review provides the foundations and starting point for this research project. Literature on governance has been researched and the key themes have been identified.

What governance comprises and its history are investigated, then some governance theories that have been developed over time are explained. The literature research then moves on to discover what has been researched around the application of these theories in agriculture and the family farming business.

Lastly, how governance compares to management is explored, then how governance in the corporate world may compare to governance in agriculture and family farming businesses which are the focus of this research project.

4.2. The Definition and History of Governance

Researching literature uncovers many different definitions of governance. All these definitions, however, in some way or form, relate to the same thing. (Cadbury, 1992), in a pioneering report that set out to recommend on the arrangement of company boards to mitigate corporate risks and failures said governance is "The systems by which companies are directed and controlled".
Another definition (DairyNZ, Governance, 2023) states "Governance is the role of leading an organisation and management in its day-to-day running or operating. Governance is the job of the governing body, such as a committee or board, to provide direction, leadership and control."
(Allen, 2013) explains "Governance is the system by which those who have been entrusted with directing and leading a company make good decisions consistently."

The consistent themes across these definitions are those of direction and control. This makes sense when you explore the origins of the actual word Governance. (Skerman, 2016) explains that the word governance is derived from the Greek verb "Kubernan" which means to plot or steer.
Throughout history, the term governance has often been associated with the word government and the exercising of power by political leaders in government. In the 1970s and 1980s, it emerged with new meaning as at this time the scale of businesses were rapidly increasing. The consideration of a wide range of stakeholders who were invested in these corporations needed to be considered in a formal process.

Moving now to the modern day it is a term that has become rather a buzzword around business and industry, but as is often the case, if you ask for a more detailed explanation answers may vary, or the understanding and implementation will differ across both individuals, businesses and industry.

4.3. Corporate Governance Theories

Over time several different models have been designed and developed to help with the explanation and implementation of corporate governance. Taken from (Yusoff & Alhaji, 2012) four of these theories and their concepts are explored below. These models have been selected as they are the theories judged to be most applicable to understanding governance in a family farming business.

4.3.1. Agency Theory

Modern governance theories originate with agency theory and then expand out from there. (Huse 2007, as cited in Skerman, 2016) says "Agency theory is regarded as the 'Bible' of corporate governance".

(Yusoff & Alhaji, 2012) Agency Theory is based on the concept of separating the ownership from the control of the business. This is achieved by separating into two parties, the principals (those who own the business) and the agents (those who manage the business) An agent is best described as someone who acts on behalf of a group so this gives some context to where the name agency theory is derived from.

This separation of the principal and agent can then result in what is known as the principal-agent problem caused by someone having to take action on behalf of someone else. A board of directors is therefore seen as a crucial monitoring mechanism to minimise problems caused by the principal-agent relationship.

Agency theory is based on two notions. The first is that the two participants, the managers (agents) and the shareholders (principals) have interests that are assumed to be both clear and consistent. The second notion is based on the fact that humans are self-interested and reluctant to sacrifice their personal interests for the interests of others.

A business, that the agent is employed to manage, is not them as an individual, but rather a legal entity, where conflicting objectives of multiple individuals are bought into equilibrium within a framework of contractual relationships. These individuals can include employees, suppliers, customers and creditors. To achieve this equilibrium a number of decisions need to be continuously made.

Directors who combine to form a board act as agents by ratifying the decisions made by the managers and monitoring the implementation of those decisions. One of the challenges however can be how to induce the agent to act in the best interests of the principal while also not incurring too many costs in monitoring this. It is the view of many agency theorists that an efficient market is considered a solution to any agency problems.

Figure 1 shows the concept of the agency theory. On the left there are the principals (those who own the business) who have self-interests. On the right is the agents (those who manage the business) who also have self-interests. The principals hire and delegate responsibility to the agents which meet the self-interests of the agents and in return the agents ensure the business performs which meets the self-interests of the principals.

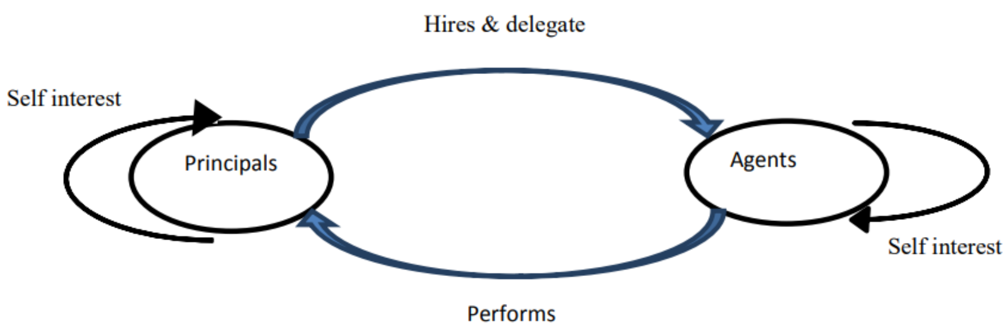

Figure 1 The Agency Model. Adapted from Abdallah, H. (2009) as cited in Yusoff & Alhaji, (2012)

4.3.2. Stakeholder Theory

(Yusoff & Alhaji, 2012) The Stakeholder theory of corporate governance focuses on all the different issues stakeholders of a business have. By definition a stakeholder is someone who has an interest in the activities of a business, so it opens up to more than just the shareholders.

The business seeks to provide a balance between the interests of its diverse stakeholders to ensure they all receive some form of satisfaction. While good in theory it could be argued that the needs and interests of the various stakeholders simply can't be reconciled equitably and some will have to take a back seat at some stage. Because shareholders are the only stakeholder recognised by Business Law in most countries the business may be obliged to put their needs first.

It could be suggested that stakeholder theory may explain governance better than agency theory by highlighting the different constituents of a firm. The concept converts the inputs of investors, employers and suppliers into forms saleable to customers then the results of these combined actions supply returns back to shareholders.

Stakeholder theory has become more prominent as researchers have recognised that the activities of a business in the external environment require accountability to a wider audience than just its shareholders.

The stakeholders involved in stakeholder theory are further classified as follows (Rodriguez et al, (2002) as cited in Yusoff & Alhaji, (2012):

- Consubstantial – These are the stakeholders that are essential for the business's existence (e.g. shareholders, investors, strategic partners and employees)
- Contractual – These are the stakeholders who have formal contracts with the business (e.g. financiers, suppliers, subcontractors, customers)
- Contextual – These are the representatives of the social and natural systems in which the business operates (e.g. public administration, society)

Figure 2 shows the relationship a firm or business has with the different classifications of stakeholders. The firm is trying to provide a balance so all the shareholders receive a form of satisfaction.

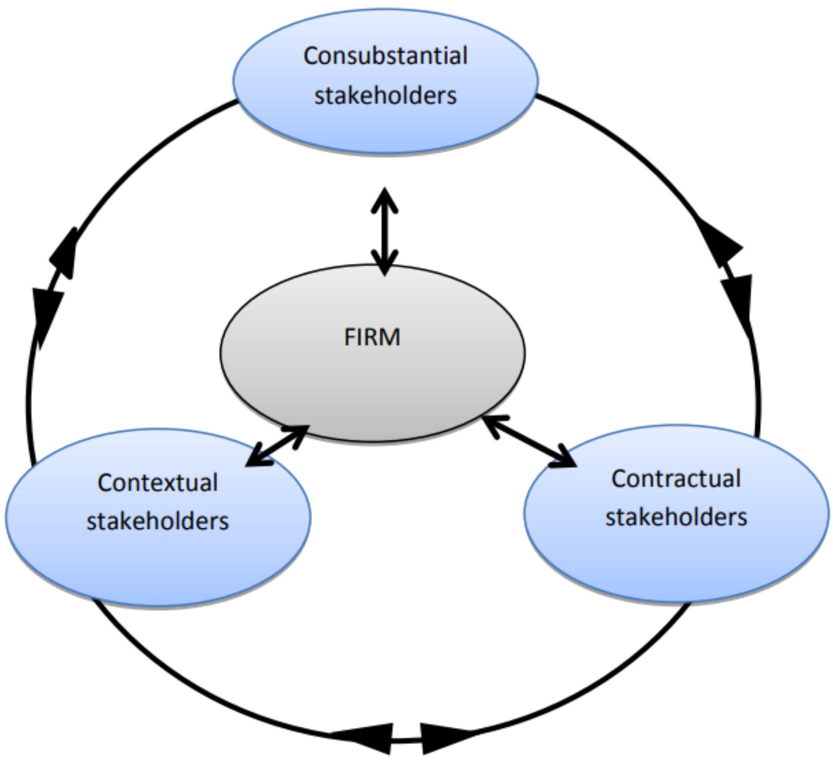

Figure 2 Stakeholders Classification. Adapted from Rodriguez et al., (2002) as cited in Yusoff & Alhaji, (2012)

4.3.3. Stewardship Theory

Stewardship theory contrasts with agency theory in that it considers managers as good stewards who will act in the best interest of the owners with care and responsibility. (Donaldson & Davis, (1991) as cited in Yusoff & Alhaji, (2012)

Stewardship theory is based on social psychology that the behaviour of the executive is pro-organisational and has higher utility than individualistic self-serving behaviour. (Davis, Schoorman & Donaldson, (1997) as cited in Yusoff & Alhaji, (2012)

Stewardship theory sees a very strong relationship between managers and the success of the business. The manager, being a diligent steward, will protect and maximise shareholder wealth through the business performing well. There is a synergy in that both the shareholders and manager succeed with stewardship theory as the shareholder's wealth is maximised while also maximising the manager's skills and ambition, as the steward should have a clear mission for what they want to achieve and why. (Yusoff & Alhaji, 2012)

As opposed to monitoring and controlling, stewardship theory puts focus on structures that facilitate and empower. For this reason, stewardship theory takes a more relaxed view of the separation of the chairman and the CEO. Under stewardship theory, a single person can both do the chairman and CEO role and have specialist executive directors rather than non-executive directors.

Figure 3 explains the concept of stewardship theory. In contrast to the agency model, the two parties are shareholders and stewards as opposed to principals and agents. Rather than monitoring and controlling the steward is empowered via trust and in return the steward will protect and maximise the shareholders wealth.

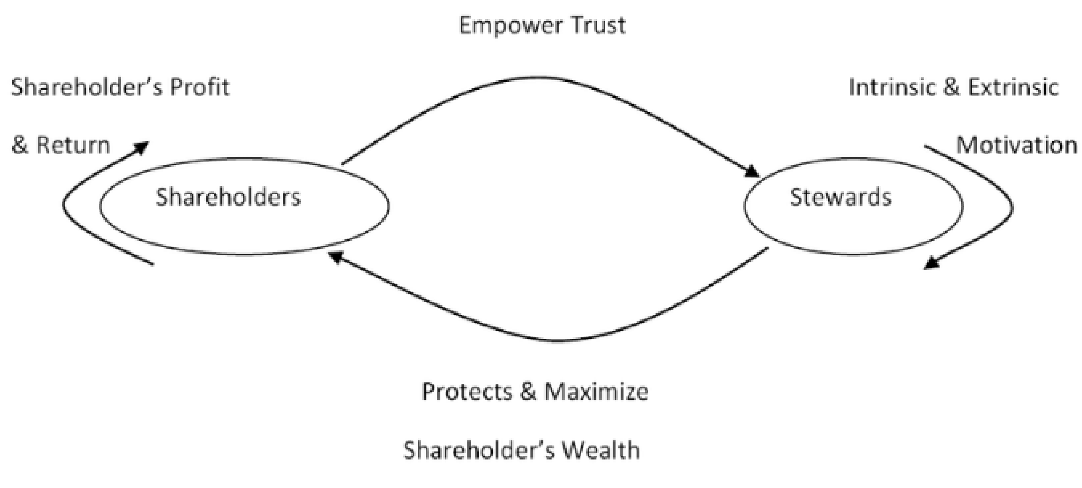

Figure 3 The Stewardship Theory Adapted from Abdallah, H (2009) as cited in Yusoff & Alhaji, (2012)

4.3.4. Resource Dependency Theory

(Yusoff & Alhaji, 2012) Note that the basic proposition of Resource dependency theory is the need for environmental linkages between the business and outside resources. Directors serve to connect the business with external factors by co-opting the resources needed to survive. Boards of directors become an important mechanism for absorbing critical elements of environmental uncertainty.

There are several factors that appear to intensify the character of this dependency such as the importance of the resource, the relative shortage of the resource and the extent to which the resource is concentrated in the environment. Directors bring different resources to a board under the resource dependency theory. Some of these resources can include information, skills, and key constituents e.g. suppliers, buyers, public policy decision-makers or social groups. The directors can also provide legitimacy and reduce uncertainty.

4.4. How Might Governance Theories Apply to The Family Farming Business?

4.4.1. Agency Theory Application

(Skerman, 2016) Explains that the bulk of the governance needs of family farming businesses are not satisfied by agency theory. This makes sense when you look at agency theory's focus of addressing the principal-agent problem. In many family farming businesses, the principal and agent are the same person or people, so governance via this theory can be very hard to implement. If there is not sufficient separation of ownership and management then the agency theory approach will be very hard to implement. In many family farming businesses ownership and management are one and the same.

(Nuthall & Old, 2015) also note that with agency theory the board exists to prevent any exploitation that could occur when the management serves contrary to the shareholder's interests. This is unlikely to be the case when they are one and the same. The costs of implanting a board with this concept will likely outweigh the advantages.

(Appleby, 2020) states that Agency theory is a fairly common governance theory within agriculture but often with the manager and the board chair being the same person therefore requiring a formal board to offset any issues caused by this. It is likely this applied to larger agricultural businesses and not family farming businesses.

4.4.2. Stakeholder Theory Application

There appears to be limited literature specifically around the application of stakeholder theory to the family farming business. This could possibly be because it is believed it is applicable to larger farming co-operatives but not the family farm that this project focuses on. While not specifically applicable it is worth considering that it may become more important in the future as stakeholders such as financiers, or regional councils may require better information and reporting than they may have in the past, especially as businesses grow and expand.

4.4.3. Stewardship Theory Application

(Appleby, 2020) suggests stewardship theory as a possible theory applicable to governance in agribusiness. This is largely due to that fact that boards take on more of a unified command structure as opposed to one of the board controlling the management as is the practice with agency theory. (Sterritt, 2014) points out that stewardship theory supports CEO duality (the situation where the CEO holds both the position of CEO and the chairperson of the board) which gives greater unity of the direction and a stronger command control. This also helps the manager to be on board with the longer-term direction which ultimately, they are accountable for implementing.

The fact that the manager of a farming business is a very specific job qualification and is not easily transferable to other industries outside of agriculture helps support the application of stewardship theory because the manager should act in the best interests of the business using good stewardship. Farmers are sometimes referred to as "stewards of the land" so this title rings true in that regard. While also saving on a number of costs associated with implementing checks and controls over the manager, stewardship theory empowers the manager to make good decisions which is critical given they are dealing with a biological system that can change rapidly, often requiring the manager to make critical autonomous decisions to avoid potential disaster.

4.4.4. Resource Dependency Theory Application

(Appleby, 2020) states that governance based on the resource dependency theory is useful in agribusiness because the resources, which in this case could be land, soil type, water availability and staff availability, will usually dictate the type of activity carried out on the land. Given all these resources are becoming scarcer, or in some cases more challenging, a board that can help the manager negotiate the use of these resources to provide a sustainably profitable result back to shareholders would be beneficial. Because the board utilises people on the skills they can bring in regards to resources as opposed to the directorship of a firm, veterinarians, farm consultants and accountants may fill these roles well.

(Skerman, 2016) comments that the resource theory of governance if applied to the farming business provides a tremendous opportunity to challenge and grow the capability of the owner-manager by the board of specialists providing advice, council and knowledge. However (Sterritt, 2014) states that in research with industry leaders in the dairy industry, they did not think resource dependency theory was relevant. This was due to participants in the research believing it was better to appoint individuals that best suited the direction of the business. The size and scale of the businesses interviewed in that research may not however have fitted the description of a family farming business.

4.5. The Difference Between Governance and Management

(DairyNZ, Governance, 2023) explain the difference between governance and management, which is a question often asked. "Governance refers to oversight and decision-making related to strategic direction, financial planning, and bylaws - the set of core policies that outline the organisation's purpose, values, and structure." As opposed to management which (DairyNZ, Governance, 2023) defined as "Typically the job of a management or executive team, led by a coordinator or chief executive and his or her staff and volunteers"

Table 1 explains the differences based on the explanation, focus and the questions asked in the different roles:

Table 1 Difference between Governance and Management (Dairy NZ, 2023)

	Governance	**Management**
Is	Doing the right thing Taking an overview of the business	Doing things right Ensuring things are implemented well
Focus	Discerning the purpose, vision, strategy	Given the strategy, what needs to be done to deliver on that
Ask	Where are we heading? Where are we now? What will we do to get there?	Are we on track? How well are we delivering?

4.6. Governance in the Corporate World Compared to Governance in the Family Farming Business

Many of the principals that apply to governance relate to agency theory and are applicable to larger organisations where shareholders may be many and invest to get a quality return on their investment. The governance of the organisation protects these shareholders from the risk of underperformance of management but also seeks to instruct management on the direction or road map of where they need to head.

Now compare that to a family farming business. (Nuthall P. O., 2017) point out that a farm, as opposed to other business's, is a biological system which continues every minute of the year. Farming businesses are also usually owned and run by the same person or people who wear both hats when it comes to management and governance. All assets tend to be held at the same place given that the family home also makes up part of the business.

(DairyNZ, Governance, 2023) lists several issues relating to farming business not limited to,

- large asset values relative to the cash income they generate which can often result in complex ownership structures.
- Financial reporting is often only done well after the year has finished and often only completed for tax purposes.
- Owners often do their own office and administration work so tend to prioritise management concerns ahead of any governance support.
- Working with livestock requires utmost diligence in the areas of, NAIT, SPCA, boundary fences, use of antibiotics and drench withholding limits.

There are some more differences too when you consider how the actual farming business operates including:

- Marketing is usually not required – "For product marketing, organisations (including farmer cooperatives) further down the chain provide professional services thus reducing the need for the farm to develop its own strategies" (Nuthall P. O., 2017)
- Minimal requirement for a dedicated finance division as payments are made from companies that stock or produce is supplied to monthly, or at an agreed time after the stock are sold. There is usually no requirement to follow up with aged debtors or allow for potential loss in this department.
- In regard to accessing finance "farm financial needs are relatively consistent so the banks tailor offerings to suit common requirements" (Nuthall P. O., 2017)

Considering all the above issues and differences it becomes clear that a family farming business is unique and is not easily comparable to a corporate business when considering governance.

5. Analysis and Results

5.1. Introduction

The information gathered following the semi structured interviews of family farming businesses has been analysed as described in the methodology section and key themes identified.

For the respondents to remain anonymous any quotes in this section of the report are cited as being from "farmer"

Figure 4 shows the key themes and the codes that were identified from the responses. These themes are then investigated and discussed further to help understand the current attitudes to governance.

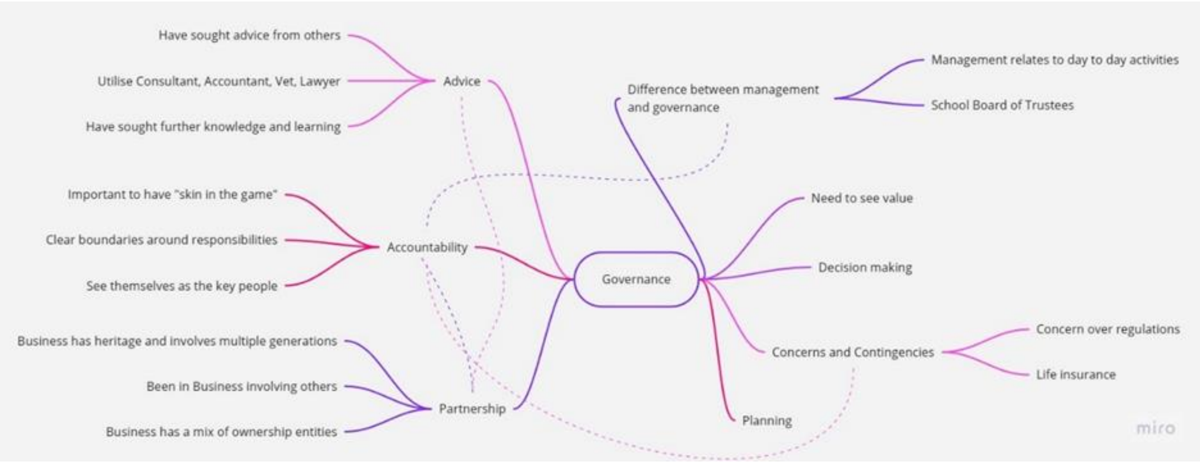

Figure 4 Themes relating to governance from the semi structured interviews of family farming businesses. The dotted lines represent links that arose between the themes.

5.2. Governance in Family Farming Businesses Key Themes

5.2.1. Partnership

The family farming businesses interviewed all had some form of partnership or a relationship with another entity in their journey to having their current farming business. These partnerships included being partners in an equity partnership, working in partnership with the previous generation and leasing properties from others.

While all now running family farming businesses in their own right. The previous generation was often mentioned through the various questions asked. The questions about why the interviewees chose farming as a business and the journey they took to get to their current position overwhelmingly referred to the previous generation, but as questions moved towards the purpose of the business and future goals it was the next generation that were consistently mentioned.

A large proportion of the respondents mentioned that their parents were still key people in their business. This wasn't just due to the fact they may have still had a financial interest in the business but also because they were people who were reliable to undertake certain roles or tasks and also a sounding board for some decision-making.

Of the family farming businesses interviewed none had a simple single ownership structure. All had a company which then may have involved the company leasing land owned in a trust. One had a trust which was a shareholder in the company and another leased land from a trust they were trustees of as well as land in a trust which was still owned by parents. One leased land directly from their parents.

How and why the current ownership structures had come about varied across the respondents. A company was often referred to as being more flexible while a trust was often mentioned due to asset protection and aiding to help hand on the asset to the next generation. Two of the responders had taken advice from parents on the ownership structure stating they had done this before so knew how things should be done.

Some responders also had concerns about how these current partnerships will extend into the future including the next generation.

5.2.2. Accountability

When asked why they chose farming as a business and what the purpose of their business was, half of the responders mentioned some form of accountability. This involved only being accountable to themselves and being in control of their own destiny.

"Wanted to be our own boss, bring the kids up on a farm and only be accountable to ourselves" (Farmer)

"It offered security for ourselves and the education of our children. We are In control of our own destiny" (Farmer)

Overwhelmingly all respondents mentioned that they were the key people in their business. Some did mention other people like staff or parents but ultimately the accountability stopped with them.

5.2.3. Planning

Interviewees were asked about what the purpose of their business was. This was then followed up with questions to see if this purpose was documented and was there a written strategic plan for their business. Those who had a written plan did admit it was very basic and agreed that it is not updated or reviewed as often as they perhaps feel it should. One participant did have a plan in an A4 book that they updated annually while another admitted they would like to have a solid strategic plan that they could show to a third party should they seek advice from a person outside the current key people in their business.

5.2.4. Advice

While none of the respondents had a formal business plan outlining their purpose, several did have some form of template they had filled in, referring to something they had picked up on a course that had been run either by a bank or an industry body. It was also mentioned that the subject of governance had been discussed at industry body events or courses they had been on but had not been discussed in detail.

As mentioned above in the accountability theme, all of the respondents saw themselves as the key people in their business, but a consultant, accountant and bank were also mentioned as being key people. Lawyers and accountants were mentioned when discussing taking advice on how they came to their current ownership structure.

When asked who they would approach or employ to assist with governance in their business, their accountant and consultant were the main people mentioned. A veterinarian was also mentioned, and one respondent said they would be happy to employ a specific financial advisor to assist with where they would like to take their business. Two respondents also mentioned they would benefit from some form of farming mentor being used.

"I would like to use someone who I perceive to be successful in the same area that I am trying to be successful in" (Farmer)

For researching growth in their business respondents mentioned ideas that came from events that industry bodies hold and also talking to friends and other farmers who they believe have similar goals to themselves. Several mentioned a discussion group they may be already involved in to help explore where growth can be achieved from within their existing business.

"Our discussion group is useful and we get a lot from talking to other people looking for similar things as ourselves" (Farmer)

5.2.5. Decision making

When asked about what the concept of Governance meant to them, two of the respondents referred to it as being related to decision-making. The concept of overall or overarching decision-making was spoken about as well as gaining a consensus on decision making which can be interpreted to mean decisions made in conjunction with others.

When asked about their attitude towards decision-making at good times versus decision-making under pressure all responders agreed the biggest decisions they have made in life thus far were very considered at good times. A point to note is that anecdotally this question was the one that would make respondents pause for a while to think before answering. Some did however note that there might be a bit of both, being some decisions made under pressure at challenging times have also worked out well, but nobody considered decisions made under pressure to be outright the best decisions.

When comparing decision-making in business compared to decisions made in life outside of business most considered their approach to decision-making to be different across the two areas however one respondent did say they were similar but with less restriction outside of business.

"No, the approach is much the same but sometimes outside the business decisions might be more flamboyant" (Farmer)

5.2.6. Defining the Difference Between Governance and Management

When asked what the concept of governance meant to them, two of the respondents spoke of governance regarding decision-making, as mentioned above in the decision-making theme, while the other two referred to the concept of having some form of board. One respondent had been on a board of a larger organisation as part of an occupation outside of their farming business. Two others had been part of a school board of trustees, so this shaped their understanding of what governance was.

"Making the roles and setting the direction but not micro-managing this being achieved – you leave that to others much like we do with the School Board of Trustees" (Farmer)

When asked for their opinion on the difference between management and governance. Most replied that governance was associated with the bigger picture, strategy and setting the direction.

"Management implements the strategy that the board and the CEO come up with" (Farmer)

"Governance is much more overarching and strategic while management is more day-to-day physical decision-making" (Farmer)

"Governance is the big picture, say 3-5 years and everybody on board. Management is more day-to-day out to 3 months" (Farmer)

"Setting the direction is governance. Management is working within the guidelines set. You hear about it more with larger businesses" (Farmer)

When asked if there were clear boundaries about who is accountable for what in their business most agreed that there were clear boundaries. When questioned further on what these boundaries were and for whom, most respondents confirmed that one of the partners, who happened to be the male across all the respondents, was accountable for the day-to-day management while the other partner did the financials or may look at the bigger picture but what the big picture actually was, was not easily defined in the responses.

5.2.7. Value

After discovering who the family farming business interviewed may use to help them with governance, they were then asked what they would be prepared to spend on this annually. The results varied from some suggesting $1,000 to $2,000 per annum to others suggesting they were already spending up to $20,000 per annum on administration which includes accountancy and consultancy fees, so if it could be included in with this existing expense that would be beneficial.

How to actually see the value of the money spent assisting with governance was a challenge for some of the respondents.

"If spending say $20,000 per annum it needs to convert to $100,000 in 5 years to be valuable versus the instant results you can get from a good production consultant" (Farmer)

"You only get out what you put in. It is hard to see what the payback would be" (Farmer)

5.2.8. Future Concerns and Contingencies

The people interviewed, who currently run family farming businesses were asked what they saw as their biggest concern for their business in the future. All made comments that changes to legislation and regulations that are being discussed regarding climate change and environmental protection were a concern in how they may affect how they go about their business in the future. One respondent elaborated further to say that they may have to potentially change land use and how to navigate this would be a challenge.

The current commodity markets and economic climate were mentioned by most as being a concern. This was understandable as at the time of the interviews both sheep and beef and dairy farming were entering a season where the price for the commodities produced were both considerably less than they were the previous year. One respondent mentioned that they would like to expand the business further through purchasing another farm or additional land, but these expansions needed to stand on their own. In the current economic environment, combined with the value of the land being purchased this is a challenge to achieve.

When asked what process their businesses had regarding contingency planning, using the death of a key person as an example, all confirmed they had some form of life insurance or income protection. One had a plan that had been written out. In this particular case, one of the partners had already set up the business before the now spouse had become involved.

The respondents all elaborated that the insurance policies were there to provide money to buy time before bigger decisions would then need to be made.

"Life insurance will cover so decisions don't have to be rushed. Staff know how to do all jobs" (Farmer)

"There is Income protection but we are self-insured via plan. There is a ten-point plan of who to call about what but it probably needs refreshing" (Farmer)

"We have a rural key person policy which would cover wages in the meantime. We also have Life insurance policies on both of us" (Farmer)

"Life insurance, set up for 12 months so decisions can be made" (Farmer)

6. Findings and Discussion

6.1. Introduction

In this section, several of the key themes and thoughts that came from the semi-structured interviews and analysis are explored further to investigate if the information researched in the literature review can offer potential opportunities.

6.2. Understanding the Concept of Governance

The answers that came through from the respondents, when asked about their understanding of governance, related to different forms of decision-making and the concept of having a board of directors. You can draw a conclusion that agency theory is most probably the governance theory they are thinking of due to a board of directors being mentioned when answering this question.

The experience of being on a board of trustees at a school was also mentioned. This role does give great insight and experience in consensus decision-making and working along with management but to practically apply this process to the family farming business is likely to be unsuccessful. Once again it is likely more related to agency theory and solving the principal-agent problem.

Both (Skerman, 2016) and (Nuthall & Old, 2015) explain that they don't believe agency theory meets the needs of governance required by family farming businesses and this makes sense when you consider that there is no principal-agent problem, the owners and managers of the family farming business are one and the same. There is also no need to incur the cost of monitoring and controlling when all respondents viewed that the accountability was clearly with themselves.

6.3. Understanding the Difference Between Governance and Management

The answers family farming businesses gave when directly asked their thoughts on the difference between governance and management explained governance as being concerned with the bigger picture, strategic and setting direction while management was focused on the day-to-day running of the business.

The thoughts expressed by those interviewed basically align with the definition of the different roles presented in the literature review. Governance is taking an overview of the business while management ensures things are implemented well. Governance focuses on vision and strategy while management focuses on what needs to be done to deliver the strategy. Governance asks where are we now? where do we want to go? and how do we get there. While management asks if are we on track and delivering what is required.

An opportunity for farming businesses could come from clarifying what the bigger picture is and drawing up the road map of how to get there. This would then give management more purpose around what and why they are doing what they do. This could become more pertinent in times of hardship, as can happen in farming when faced with adverse weather and fluctuating commodity prices. It could be a challenge to do this given governance and management are one and the same in a family farming business however the family farming businesses did comment that there were clear boundaries and one partner was often more focused on the bigger picture or financials so there is an opportunity to expand on this further with more structure.

6.4. Use of Professionals (Accountant, Veterinary, Consultant)

Exploring the theme of advice, the family farm businesses viewed the accountant, farm consultant and veterinary as some of the key people in their business. You can understand why when considering that the activities the business undertakes often rely solely on a biological system and the management of this system is undertaken out on the land as opposed to behind a desk, hence the accountant playing a key role in assisting with business decisions.

Taking on the fact that the above professionals were seen as key people in the business and considering that farmers are dealing with a biological system the opportunity for a governance model based on the resource dependency theory becomes plausible. The literature review explains how a board of directors under resource dependency theory are an important mechanism for absorbing critical elements of environmental uncertainty. Resources that the directors can bring can include information and skills which by way of their specialisation, the above-mentioned professionals bring to a farming business. This is given legitimacy as the respondents actually named these professionals as being key people in their business.

(Appleby, 2020) was of the opinion that resource dependency theory is useful in agribusiness as it utilises people on the skills they can bring in regards to resources as opposed to the directorship of a firm. Veterinarians, farm consultants and accountants were named as people who may fill these roles well. This is given further justification based on the fact these were the professionals also named above by the interviewees as key people in their business.

(Skerman, 2016) commented that the resource theory model of governance, if applied to a farming business provided a tremendous opportunity to challenge and grow the capability of the owner-manager by the board of specialists providing advice, counsel and knowledge. It is obvious that the farmers interviewed see this also.

Another advantage that has possibly not been considered, of using a resource dependency theory model and including key advisors such as accountants, farm consultants and veterinarians is, that while they bring the knowledge and expertise in their individual areas of specialisation, they will often also own or run their own business so have hands-on expertise in governance and what is required to run a business. While not specifically why they are employed, these skills are bound to be useful as time progresses and trust of the board is established.

6.5. Key People and Accountability

Something all the respondents agreed on was that they were the key people in their business and the accountability to make decisions and implement results was entirely with them. Given this, you can draw a conclusion that there is no desire or need to implement any governance model based on agency theory as once again the principal and agent are the same people.

Stewardship Theory, however, does present an opportunity to be a model that could be of some benefit. This is because stewardship theory considers managers good stewards who act in the best interests of owners with care and responsibility. One of the themes from the respondents that became obvious was that they ran the business not only to control their own destiny but also for their children, to provide a great lifestyle for them in their younger years and to help with their education.

Rather than putting the focus on monitoring and controlling, as done with agency theory, a form of stewardship governance model moves the focus to implementing structures that empower. This is far more beneficial for the managers of the family farming businesses who are both the chairman and CEO and whose purpose of running the business is to control their own destiny and provide for their children.

6.6. Opportunity to Use Governance to Help with Succession

All family farming businesses interviewed either still had, or on their business journey so far, had been in some form of partnership which had usually involved family. Succeeding the business from the previous generation was spoken about while how to continue the business into the next generation was also a concern.

Based on the literature reviewed (Yusoff & Alhaji, 2012), a potential opportunity can be considered that utilises the governance theories to help with succession.

One of the governance models the literature review of the report includes, which may not have been investigated for use in family farming business is the concept of stakeholder theory. It is likely that resource dependency and stewardship theory could work well in family farming business's but stakeholder theory may be able to assist when considering succession and transferring information and skills to the next generation.

If family members are considered as contextual stakeholders then they can gain knowledge and begin the process of learning and understanding how the business works. This could potentially help with communicating the farm as a business rather than just an asset so areas in need of improvement or concerns uncovered can be understood. It could also highlight areas where any of the next generation who may like to be part of the business in the future could learn specific skills to help move the business forward in the chosen direction.

A formal governance system that includes clear communication and transparency to the next generation will start these conversations earlier and having independent people, who are separate from the farming family allows for clearer communication, discovery and understanding of individual views which can prevent misunderstandings made on assumptions. If implemented properly this can allow for a smoother transition of management and accountability rather than a sudden need for a transaction in order to hand over management.

6.7. Navigating the Future

All the family farming businesses interviewed raised concerns about possible changes to legislation and regulations around climate change commitments or environmental protection that may impede the way they go about business in the future.

To overcome these concerns or help navigate a future that may be uncertain, resource dependency theory could prove to be useful. One of the characteristics of the resource dependency theory is that it creates a mechanism for absorbing critical elements of environmental uncertainty. Then relate this with the fact most of the family farming businesses interviewed named a number of professional people as key people in their business the opportunity arises for the combined knowledge, expertise and council of these professionals, to be incorporated together in a formal environment to help navigate family farming business's successfully through the challenges that may lay ahead.

Another advantage is that the challenges one farming family business may be encountering are likely to be similar to those of other family farming businesses, so the professionals involved are likely to be advancing their skills in these areas as they work with a number of businesses and not just specifically the one considered. They may even be able to provide connections to other businesses who are facing similar challenges or who have navigated ahead further so long as a competitive advantage is not lost, should that be a factor.

6.8. Getting Value From What You Already Have

The analysis from the family farming businesses interviewed raised the concern of what the cost of implementing governance would be and also what value would be created from this. The actual cost was related to paying someone to help implement governance strategies and guide how it should be implemented.

Consider the resource dependency model as an option and how this model uses the professionals already key to the business for their expertise and counsel and the opportunity arises to use what you already have and possibly extract more value from these key people.

These key people are currently used with a focus on management decisions or solutions and it is important that this continues, but with some structure placed around the combined use of these professionals the same thinking used for management can start to be directed towards governance.

The amount of time spent on governance as opposed to helping with management is likely to favour management for a start, and this is justified, but over time this can change and possibly grow as the business grows and adapts.

More value may be able to be extracted from a combined, structured approach to what you are already paying for in key people who can help businesses to navigate the future. The payback may not be immediately tangible but there is the potential that management results could be improved if management is not concerned with what may be coming up in the future and has a plan to navigate what's ahead.

6.9. Planning for Contingencies

The analysis of the interviews of family farming businesses concluded that they all paid for some form of life insurance with the key reason being to provide a buffer of funding should the key management person in the business die or become incapacitated. With a resource dependency model and all key professionals on the same page as to where the business is heading and the culture of how things are done, should the unfortunate happen, a suitable person could be found to replace management and provide business continuity with minimal disruption.

This is not to say that no form of insurance should be considered, but as the governance of the board of professionals supporting the business grows, these discussions can be had to draw up plans so that it takes the stress off the family at a time of loss and the business can continue as the legacy of the person diseased will have wished. The next generation can continue on the journey they have created for themselves, possibly in line with the governance of the business articulated through stakeholder theory without having to sacrifice their journey now to replace the management which could lead to a problems of resentment latter on.

6.10. A Potential Governance Model for Family Farming Businesses

Figure 5 illustrates how a family farm governance model could potentially be implemented considering the findings that have been discussed.

Note that the people running the family farming business in this case are referred to as “Mum and Dad”:

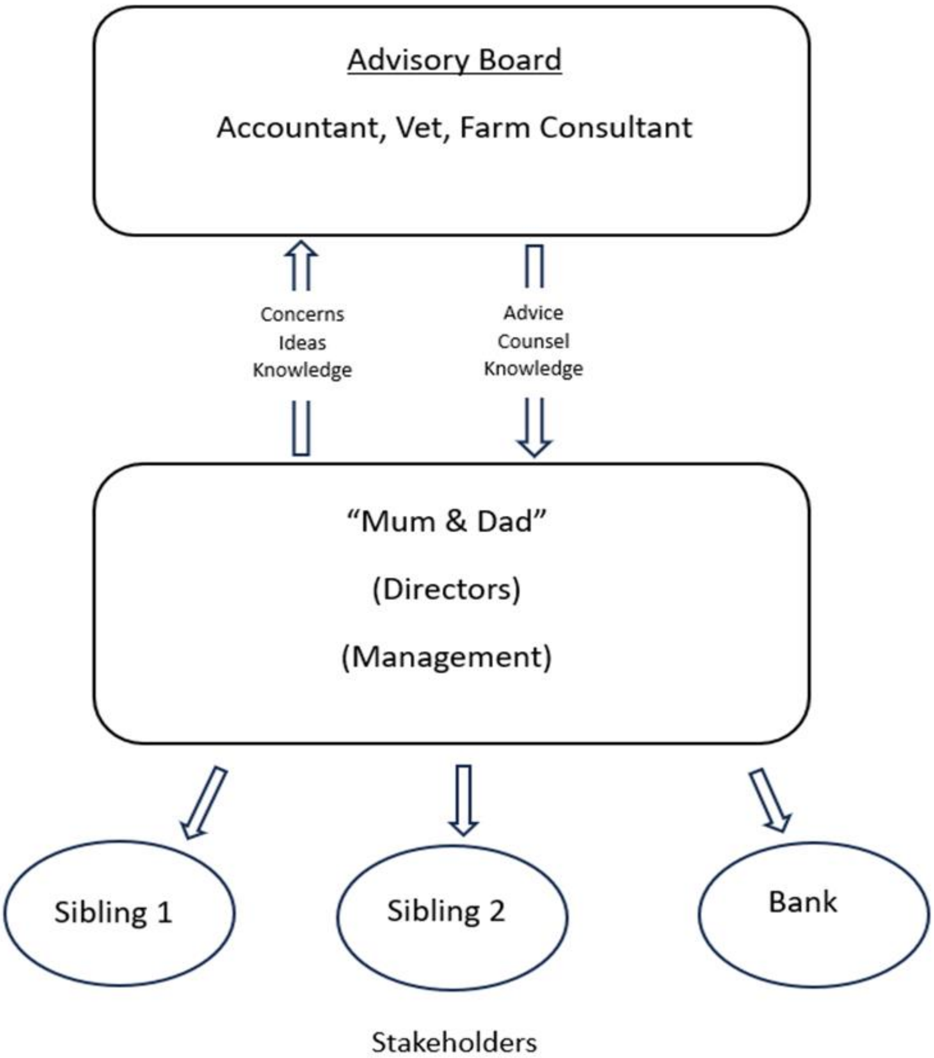

Figure 5 Possible Family Farming Governance Model

6.10.1. Roles and Responsibilities

“Mum and Dad”

- Run the business as good stewards based upon the knowledge, goals, aspirations, and values they have.
- Remain accountable for the decisions made in the business and the direction they are taking the business.
- Share information with the advisory board rather than just keeping thoughts and knowledge in their own head.
- Take on advice and feedback from the board of advisors.

Advisory Board

- Ask deeper questions to understand what the goals, aspirations, and values of “Mum and Dad” are.

- Record what is said and discussed in the meetings and help draw the "road map" for the business based on the discussions held.
- Give recommendations and advise on current management issues.
- Challenge and critique ideas.
- Bring ideas and solutions to the table based on an understanding of the "road map".

Stakeholders

- Receive information and reports from the meetings.
- Possibly join meetings when and if deemed appropriate.
- Understand the road map for the business and where they fit into the business.

6.10.2. Key Points to Help with Successful Implementation.

- It is important that the advisors on the board understand they are invited rather than elected and this governance model is not one of monitoring and control but rather advice and counsel.
- In its infancy this model is likely to concentrate more on management as "Mum and Dad" gain knowledge and advise from the advisory board and the advisory board seek to understand and record the intricacies of the management of the specific farming business. Over time the focus needs to concentrate more on governance otherwise it will likely become stale. It is the advisory boards responsibility to drive this.
- It is up to "Mum and Dad" and the advisory board to decide when is the best time to bring siblings into the business as stakeholders in a more formal manner. This information flow in a business setting outside of the usual family dynamic may possibly help to make decision making around succession easier.
- Stakeholders can be added or removed over time depending on how the business evolves.

7. Conclusions

As family farming businesses continue to grow and the environment in which they operate also changes, the concept of governance within the business gains focus. This project set out to find what level of governance is understood and what is the attitude towards this. Can it be integrated into the way existing family farming businesses operate and add some real value, or is it going to be too hard to implement leaving the status quo to remain?

Findings identified that the addition of a form of governance would not only be beneficial to day-to-day farm management but also add value to the progression the of farming business into the future with prosperity.

Agency theory is the origin of modern governance theories and this has emerged as the concept that family farming businesses thought of when considering governance, but it is concluded it isn't applicable in a family farming business as the owners and managers are the same people.
Further discussion suggests there is however an opportunity for an advisory board based on the resource dependency model of governance in a family farming business. The adoption of an advisory board is not to monitor and control but rather to empower and understand. This understanding provides the advisory board with an opportunity to create a road map for the business which gives the managers a sense of direction for the future.

Creating an advisory board does not have to come at a big additional cost as had been identified as a concern. The professionals that could make up this board are already key people in the business. The advisory board unites them together in a more constructive approach. This united and more formal structure would not only extrapolate more value from what you already get from these key people but also set up opportunities for the future.

The advisory board continues to help with management decisions as they do in their current roles but they also have a duty to help the business plan for the future. In regards to succession, this can start to be discussed earlier and the relationship between family and business can be separated by the advisory board reporting to the family (considered as stakeholders) in a more formal manner. Contingencies for the business should key people die or become disabled can be planned along with help in guiding the business through changes to regulations and legislation allowing the managers to focus on what they are specialised in.

Conclusively, a family farming governance model based primarily on resource dependency theory while also incorporating some of the concepts of stewardship and stakeholder theories is likely to be a model that has potential in the family farming business. This model can be achieved by using the key professionals already used in the business and creating a structure where they work together to help the business move forward and thrive.

8. Recommendations

- Family Farming business's should implement a possible family farming governance model based on (Figure 5) which is primarily based on resource dependency theory but also incorporates stewardship and stakeholder theories.
- The directors and shareholders of the family farming business (referred to as "Mum and Dad") continue to run the business as good stewards.
- Create an advisory board which includes the accountant, vet and farm consultant already used by the business but with more structure.
- Ensure the advisory board provides advice, counsel, and knowledge to "Mum and Dad" while in return, concerns, ideas, and intricacies of the management of the business are fed back up to the advisory board.
- Provide information to stakeholders to keep them informed relative to where they fit into the business

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10. Appendices

10.1. Appendix One: Semi Structured Interview Questions

<u>You, Your business and Your Structure</u>

1. What is a brief overview of your journey to having a farming business?

2. Why did you choose farming as a business?

3. What is the purpose of your business?
    a. How Is this purpose documented?

4. Do you have a written strategic plan for your business?

5. Who do you consider to be the key people in your business?

6. There are several different ownership structures a farming business can have, what is/are yours?

    a. How did you decide on your current ownership structure?
    b. Why did you decide on your current structure?

7. Are there clear boundaries around who is accountable for what in your business?
    a. If yes,
        i. Who are they?
        ii. What do they do?
    b. If No,
        i. Why do you choose not to have clear boundaries?

<u>Thoughts, Attitudes and Perceptions of Governance</u>

8. What does the concept of governance mean to you?

9. What did you ever learn about governance in your training to be a master at your job?

10. In your opinion what is the difference between governance and management?

11. Thinking about some of the biggest decisions you have made, have they been made under pressure at a challenging time or more considered at good times?

12. Do you feel that the relationship between ownership and control in your business is important?
    a. Why?

13. Would you consider your approach to decision-making in your business to be different to your decision-making in life outside your business?

14. Who would you approach or employ to assist you with governance in your business?
    a. How much would you be prepared to spend annually on this?

Your business moving into the future

15. Looking to the future what do you see as your biggest concerns for your family farming business?
16. What is your process of contingency planning for possible disruption to your business. E.g., death of a partner/ key person?
17. How do you research and explore potential growth in your business?

10.2. Appendix Two: Question Tree