

*Farm Business Management
for the 21st Century*

**Checking Your
Farm Business
Management Skills**

Purdue Extension

West Lafayette, IN 47907



Knowledge to Go
Purdue Extension

Checking Your Farm Business Management Skills

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Introduction

Significant financial and economic stress is facing many farm families, and a number of them are attempting to assess their potential to not just survive the current period of low prices and incomes, but to be viable, long-term participants in the agriculture of the future. This is a critical issue for Indiana farm families—will the business be positioned for long-run financial success after struggling through short-run financial stress?

The checklists in this publication can assist you in assessing whether you have the required skills. Given the profound changes in the agricultural industry and in the farming environment, it is essential to honestly assess your managerial skills and capacities, and to improve those skills if your assessment indicates that you come up short or are vulnerable.

The successful farm business of the future will require not only the personal and business attitudes and skills that have contributed to that success in the past, but new attitudes and skills as well. The assessment checklists included identify those attitudes and skills in four fundamental areas:

Production and operations management skills,

Financial management skills,

General business management skills, and

Personal attitudes and decision skills.

The purpose of these assessment checklists is not to assess your chances of success (i.e., I will be successful because I ranked high on a particular checklist), but to identify specific skill, ability, and attitude areas that are critical for future success. Thus, the checklists do not include a final tally or score, nor do they suggest the relative contributions or trade-offs in various skill or ability areas that might lead to your success. Instead, the checklists help you honestly evaluate your skills, abilities, and attitudes in selected areas critical to long-term financial and business success.

The resource list with each checklist points you to reference materials that might be useful if your realistic assessment suggests that you need help with particular skills, abilities, or attitudes. The resource list is also a place for you to turn if you are not able to rate your ability as either strong or weak because you are not sure what a particular skill entails. The resources you consult will lead you to still other sources of information. We encourage you to pursue those leads as far as your interest carries you.

As with any self-assessment exercise, you will only obtain useful input and information from these checklists if you are honest, realistic, and forthright in the assessment process. In other words, your results will be as good as you make them.

Farm Productivity/Efficiency Checklist

Differences in farm business performance will result from differences in the management of a farm's resources and production processes. Farms are essentially manufacturing operations. Thus, careful organization and management of production will facilitate peak efficiency and, in turn, contribute to increased profitability.

Farm business managers should use both economic and physical measures to assess efficiency. They will limit their ability to diagnose and correct performance problems if they don't have adequate information systems for monitoring efficiency measures that are critical to the success of their operations. In general, efficiency is measured by comparing various indicators of the value or quantity of output to the value or quantity of input required to produce the output.

Rate Your Skill & Ability to:	Strong	Weak	Not Sure
1. Obtain a resource base (land, capital, labor, and management) that is large enough to promote efficient production.			
2. Be a low-cost producer, based on monitoring cost per dollar of revenue, cost per bushel, or other similar measures.			
3. Make profitable decisions about what technologies to employ and when to adopt new technologies.			
4. Maintain a modern physical plant (buildings, equipment, etc.).			
5. Identify, monitor, and benchmark key production efficiency measures.			
6. Identify your farm's competitive advantages in terms of productivity and technical efficiency.			
7. Employ best management practices in your farm's production operations.			
8. Productively use labor, as indicated by such measures as revenue generated per man-year.			
9. Complete activities at the optimal time, minimize cycle time, and maximize throughput.			
10. Implement planning and control systems that facilitate monitoring and real-time adjustment of production processes.			
11. Define and map production methods so that cause and effect relationships are clearly understood and inefficiencies can be eliminated.			
12. Avoid investments in non-productive assets.			

Farm Productivity/Efficiency Resources

Benchmark Data

- This Purdue Extension Web site provides links to benchmark data from farm business associations in four Midwestern states <<http://www.agecon.purdue.edu/extension/fbm21/>>.
- The Illinois FBFM association is one of the best sources in the Midwest for benchmark data from actual farms <<http://Web.aces.uiuc.edu/fbfm>>.
- The National Pork Producers Council, the National Cattleman's Beef Association, and similar industry organizations can also provide benchmark data. NCBA and NPPC have extensive resources that address production performance and how it should be measured. For example, see *Production & Financial Standards, Second Edition*, from *National Hog Farmer*, March 1, 1999, Intertec Publishing Company, or visit the NPPC on the Web <<http://www.nppc.org/NEWS/newsmain.html>>.
- The National Cattleman's Beef Association can be found on the Web at <<http://www.beef.org>>.
- Milk producers can contact the Indiana State Dairy Association or the National DHIA for more information about the availability of benchmark data and information about industry production standards <<http://www.dhia.org>>.

Production Processes

- Purdue Extension's Pork Industry Handbook is a useful source of information about managing the pork production process and best management practices. This handbook and additional information on best management practices for crops and livestock can be found on the Web.
Crops: <<http://www.anr.ces.purdue.edu/anr/crops.html>>.
Livestock: <<http://www.anr.ces.purdue.edu/anr/livestoc.html>>.

National Agricultural Statistics Service

- NASS and its affiliated state offices are an important source of information on farm production performance. Indiana toll-free number: 1-800-363-0469.
National Web site: <<http://www.usda.gov/nass/>>.
Indiana Web site: <<http://info.aes.purdue.edu/agstat/nass.html>>.

Physical Recordkeeping Software

- Alberta Agriculture, Food, and Rural Development, *Agricultural Software Directory*. This site provides a list of available software for physical and financial records <<http://www.agric.gov.ab.ca/agdex/agsoft>>.

Financial Management Skills Checklist

Low farm prices and low incomes, and the financial stress that results for many farm families reinforces the importance of financial management skills in having a successful farm business.

Financial management is more than a good accounting system and farm records—it includes careful use of borrowed funds and good capital investment decisions. Financial management also addresses the use of tax management strategies; the use of insurance to protect against financial losses that can arise from fire, loss of life, or health problems; the use of leases to gain control of assets; and the development of a sound estate plan.

Rate Your Skill & Ability to:	Strong	Weak	Not Sure
1. Effectively manage financial and operating risk.			
2. Achieve performance above profitability benchmarks.			
3. Achieve performance above liquidity and solvency benchmarks.			
4. Achieve performance above financial efficiency benchmarks.			
5. Negotiate competitive interest rates, loan repayment terms, and collateral requirements.			
6. Make effective use of various sources of debt, equity, and leased capital.			
7. Maintain a positive relationship with lenders and other stakeholders who contribute capital to the business.			
8. Develop and maintain an effective financial accounting system.			
9. Use capital budgeting procedures to evaluate capital investments.			
10. Effectively manage income taxes over time.			
11. Use leasing and other asset-control strategies where appropriate.			
12. Establish appropriate control procedures for cash expenditures.			
13. Develop an effective management succession and estate transfer plan.			

Financial Management Skills Resources

Financial & Income Tax Management

- Barry, Peter J., Paul N. Ellinger, C.B. Baker, John A. Hopkin, *Financial Management in Agriculture*, 6th Edition, Interstate Publishers, Inc., Danville, Illinois, 1999. A comprehensive discussion of farm financial management.
- Boehlje, Michael, Craig Dobbins, Alan Miller, Dawn Miller, and Freddie Barnard, "Measuring and Analyzing Farm Financial Performance" (EC-712). Purdue University Cooperative Extension Service, 1999. In addition to discussing financial benchmarking, provides worksheets that lead the reader through a financial evaluation <<http://www.agecon.purdue.edu/extension/fbm21>>.
- Patrick, George and Phillip E. Harris, "Income Tax Management for Farmers" (NCR-2). Midwest Plan Service, Iowa State University, Ames, Iowa, 1997. A good summary of important income tax management considerations for the farm business manager.

Financial Benchmarks

- Lattz, Dale H., "Farm Income and Production Costs: Advance Report," *1999 75th Annual Summary of Illinois Farm Business Records*, Illinois Farm Business Management Association and University of Illinois Extension, Urbana, Illinois, 1999. Large data base that allows the development of benchmarks by farm type and soil quality. Annually published report.
- FBFM Farm Business Results, University of Illinois. Web site frequently updated with new data <<http://Web.aces.uiuc.edu/fbfm/results.htm>>.
- Edwards, William, "Financial Performance Measures," *Ag Decision Maker*, Iowa State University, File C3-55, November 1998. Reviews the performance measures suggested by the Farm Financial Standards Council and provides worksheets for making the needed calculations. Contains benchmarks developed from the Iowa Farm Business Association data base for 1990-1996.

Financial Statement Development & Analysis

- Edwards, William, "Interpreting Financial Performance Measures," *Ag Decision Maker*, Iowa State University, File C3-56, November 1998. Provides guidance in interpreting the performance standards suggested by the Farm Financial Standards Council.
- Oltmans, Arnold, Danny A. Klinefelter, and Thomas L. Frey, *AFRA: Agricultural Financial Reporting and Analysis*, Doane Agricultural Services Company, St. Louis, 1998. Provides an extensive discussion of how to develop essential financial statements. Contains an extensive set of forms to help the reader develop and analyze basic financial statements.

Succession Planning

- Harl, Neil E., *Farm Estate and Business Planning*, 14th Edition, Doen Agricultural Services Company, St. Louis, 1999. Reviews important considerations in selecting a type of business organization and developing an estate plan.
- Jonovic, Donald J. and Wayne D. Messick, *Passing Down the Farm: The Other Farm Crisis*, Jamieson Press, Cleveland, OH, 1996. Raises both business and personal issues that need to be considered in succession planning.

General Business Management Skills Checklist

Production and financial skills play a critical role in business success. However, with the changes occurring in farming, it is getting more difficult to maintain a competitive advantage with just strong production and financial management skills. Today's farm business managers also need strong general business management skills. They need marketing, personnel management, planning, and leadership skills, abilities, and attitudes.

It is important for farm business managers to have well-defined visions of what their businesses are trying to achieve and strategies for achieving those visions. They must also communicate those visions and strategies to the other business stakeholders (family members, landowners, business partners, etc.). Farm business managers need to know where the competitive strengths of their business lie and must constantly monitor changes in the industry for business threats and opportunities. Today's farm business managers are not only asked to see down the road, but also around the corner!

Rate Your Skill & Ability to:	Strong	Weak	Not Sure
1. Understand and practice win/win negotiations with landowners, lenders, and suppliers.			
2. Develop pricing strategies and document pricing performance.			
3. Develop positive relationships with buyers and sellers.			
4. Create an effective merchandising and procurement system.			
5. Create effective strategies to obtain access to markets for both inputs and products.			
6. Delegate authority and responsibility to others.			
7. Help employees develop their skills and abilities.			
8. Recognize the role human resources play in the success of the business.			
9. Effectively search out changes occurring in the industry and develop strategies to use these changes for personal gain.			
10. Recognize how everyday operating decisions affect the achievement of long-range business goals.			
11. Search for new and better ways of doing things rather than following the old adage "if it ain't broke, don't fix it."			
12. Clearly identify the source(s) of the business's competitive advantage.			
13. Seek out others to provide opinions about your ideas and plans.			
14. Continue development of leadership skills.			

General Business Management Skills Resources

General Management

- Boehlje, Michael and Vernon R. Eidman, *Farm Management*, Wiley, New York, 1998. A comprehensive coverage of farm management. Contains more advanced material than Kay and Edwards.
- Giles, Tony and Malcolm Stamsfield, *The Farmer as Manager*, C.A.B. International, Wellingford, 1990. Takes the approach that management is management. Applies management principles to farm business management.
- Kay, Ronald D. and William M. Edwards, *Farm Management*, Fourth Edition, McGraw-Hill, Boston, 1999. A good introduction to the broad field of farm management and the tools used by business managers.
- *Ag Decision Maker*, Iowa State University, University Extension. A monthly newsletter and reference source.
- Whetten, David A. and Kim S. Cameron, *Developing Management Skills*, Harper-Collins, New York, 1995. Provides several self-assessment tools and suggestions on the development of skills in several management areas.

Strategic Management

- Miller, Alan, Michael Boehlje, and Craig Dobbins. "Positioning the Farm Business," Staff Paper #98-9, Department of Agricultural Economics, Purdue University, 1998. Raises several strategic management issues for farm business managers. A series of exercises that leads a reader through the strategic planning process is also available by contacting the authors <<http://agecon.lib.umn.edu/pu/sp98-09.pdf>>.
- *Management Excel*. Online resource from Ohio State University Extension addressing strategic management <<http://www.ag.ohio-state.edu/~mgtescel/>>.
- *Pro-Dairy*. Online resource from Cornell University developed to help managers of dairy farms improve profits <<http://www.ansci.cornell.edu/prodairy/index.html>>.

Personnel Management

- Arthur, Diane, *Managing Human Resources in Small and Mid-sized Companies*, Second Edition, American Management Association, New York. 1995. A text addressing personnel management issues from the small business perspective.
- Billikopf, Gregory Encina, *Labor Management in Ag: Cultivating Personnel Productivity*, University of California. 1998. Provides helpful suggestions for addressing personnel management issues faced by farm business managers <<http://www.cnr.berkeley.edu/ucce50/ag-labor/7labor/001.htm>>.
- Thomas, Kenneth H. and Bernard L. Erven, "Farm Personnel Management," (NCR-329) 1989. Provides a concise review of personnel management style, work analysis, job descriptions, hiring, performance reviews, and personnel training.

Personal Attitudes Checklist

While change and risk are a part of normal life, some people have trouble coping, especially during difficult times, periods of low prices, or a sudden increase in the rate of change. The rapid decline in commodity prices, concern about consumer acceptance of genetically enhanced crops, and the increased difficulty of obtaining access to some livestock markets are creating feelings of uncertainty for many farm business managers.

Feelings of uncertainty or vulnerability hamper creative problem solving and response. How people cope with change depends on many factors. Farm business managers' attitudes toward change, risk, and responsibility will influence their ability to respond effectively. Being creative, communicating with others, sharing fears, and exchanging ideas can often help them recognize alternatives and select the appropriate solution.

Rate Your Skill & Ability to:	Strong	Weak	Not Sure
1. Communicate with others about problems until a solution is reached.			
2. Consider the views of others.			
3. Use direct, clear, specific, accurate, and honest communication.			
4. Accept change as a normal part of life.			
5. Recognize barriers in daily life, and develop strategies to overcome those barriers.			
6. Creatively approach problems in life.			
7. Make a plan for difficult situations and follow through.			
8. Recognize and make a change as needed.			
9. Recognize and accept responsibility for actions and behavior.			
10. Meet challenges head on.			
11. Understand how risk and reward are related.			
12. Recognize that risk taking is sometimes necessary.			

Personal Attitudes Resources

General References

- Purdue Extension. *Charting a Course for the Family Farm*. Fact sheets and Indiana resources that address business and family issues <<http://www.agriculture.purdue.edu/agtransition>>.

Financial Adjustments

- Purdue Extension. *What to Do When Your Income Drops*. Nine publications providing information and strategies for coping and managing in times of financial stress <<http://www.agriculture.purdue.edu/agtransition/family.html>>. For additional information and publications, contact Purdue Extension: 1-888-EXT-INFO; <<http://www.cfs.purdue.edu/extension>>.

Dealing with Stress

- Iowa State University Extension Service. *Stress: Taking Charge*, Pm 1660 series. Various publications related to coping with change across the lifecycle. *Taking Charge in Changing Times* series. Resources for helping others cope in tough times. For additional information and publications contact Iowa State University Extension: 1-800-447-1985; <<http://www.exnet.iastate.edu/Pages/Communication/farm98/resource.html>>.
- University of Illinois Extension. *Getting Through Tough Times*. Articles for communicating and coping in times of stress. *Family Life Fact Sheets*. Fact sheets to help farming families deal with the household tension resulting from difficult financial times in agriculture. For additional information and publications contact University of Illinois Extension: 1-800-468-1834; <<http://www.extension.uiuc.edu/ruralroute/education.html>>.
- University of Minnesota Extension Service. *Change, Loss, Opportunity, and Resilience; Helping Persons Cope with Change, Crisis, and Loss*. Resource for promoting family resiliency during times of high stress and change. For additional information and publications contact University of Minnesota Extension Media Distribution: 1-800-876-8636; <<http://www.extension.umn.edu/ruralresponse>>.
- Farmer, V., *Rural Stress and Survival Guide*, 1998. Offers thoughts about the power of attitude in coping with stress, change, or loss. Preston Connection, P.O. Box 9125, Rapid City, SD 57709.

This publication is part of the Farm Business Management for the 21st Century series. Other publications in the series provide information about the evaluation of management skills, measuring and analyzing financial performance, and applying strategic management to the farm business. For the most current information about Farm Business Management for the 21st Century publications and other supporting materials, visit our Web site at <www.agecon.purdue.edu/extensio/fbm21>.

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