Backswath
Management

AN INTRODUCTION: FARM BUSINESS ADVISORY BOARDS

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Executive Summary

Board function and good corporate governance go hand-in-hand. There is a direct correlation between better managed and better performing companies. Boards of Directors are mandated for publicly traded companies and essential for larger companies, however small and medium sized enterprises are far less likely to have a formal or true Boards of Directors in place. These businesses rely on more traditional resources, such as lawyers and accountants, when dealing with complex issues and when making business decisions that require external advice. Because of this, the advice tends to be provided on an ad hoc basis and is often uncoordinated.

Many small and medium sized enterprises reach a point in their development where there is benefit in formalizing the advice they get from the various professional resources they use. A board of directors is one option however business owners are often reluctant to establish a true board. The costs associated with a true board, both in terms of the financial investment and time required to establish and optimally utilize a board, usually cannot be justified. Further, the majority of business owners will be reluctant to give up control that comes with being the owner/operator of a small or medium sized enterprise. The loss of control is a function of the fiduciary responsibility that accrues to a true board of directors.

Advisory boards are an option for these businesses. Advisory boards differ from true boards in two ways. First, there is no fiduciary responsibility in an advisory board structure and second, there is no legal accountability that accrues to the advisory board members. Advisory boards function like a true board of directors in every other way. Business owners are not accountable to an advisory board. Advisors 'advise' and in a true board, directors 'direct'. Control is retained by the owner(s) and not assigned to the advisory board. Advisory board structure and function is flexible and is designed to meet the needs of the business.

The advisory board structure has been used effectively by businesses, regardless of their size for decades. They are not an 'every day' occurrence but not uncommon either. Advisory boards are uncommon in farm businesses. However, this is changing. Farms today have become increasingly large and complex in terms of their investment base and ownership structure and are considered small and medium sized enterprises. Farm business owners are looking for resources that can provide them with the support they need to manage their businesses. An advisory board can be one of the resources to meet this need.

Introduction

The concept of an advisory board is not 'novel'. In fact, the structure has existed for years. Application to farms and farm families has been promoted to some degree for years as well. Interest is increasing but only relatively recently, as farms continue to increase in size and complexity.

There a management truism that states that businesses are built to be sold. This truism applies to, or farm businesses as well. For some, 'sold' will be to non-family while for others, 'sold' will actually be part of an intergenerational transition. In any event, given the eventuality of the farm business being 'sold', there is a need to do what can be done to make the farm as successful as possible. This includes increasing wealth held within the family and the farm business.
Farms are increasing in size and complexity. The complexity is a function of the plan (formalized or not) to be as profitable as possible. The complexity comes from three sources including:

- organizational complexity that is required to manage growth, tax and to effect transition;
- larger farms with more people (employees and family) involved; and
- diversity of business investment other than the primary farm unit.

The increase in complexity correlates closely with a second truism that businesses, farms included, outgrow management. The prevailing wisdom is that commercial-scaled farmers cannot be all things to all aspects of managing their business. For a lot of business owners and managers, it is difficult to change the way they manage their businesses. It is even more challenging for farmers because of seasonal production pressures. Stress (including weather, finance, and family) influences farmers to continue with or revert to long-held management patterns. It takes a lot of discipline and effort to adopt new management practices and use them consistently.
Farms as businesses evolve and grow over time. An obstacle to changing management behaviors is the subtleness of the growth. We know a farmer should not try to manage a 6,000 hectare farm the same way they managed a 600 hectare farm. However, there is no light switch that says when they move from 2,499 to 2,500 hectares, they must do this or that or change this or that. The requirement to introduce new management practices is more specific to the individual than it is to increasing acreage. Ideally, management upgrades should be aligned with the demands associated with growth.

There are typically gaps in management between what a farmer is presently doing, what needs to be done and what could be done better. Examining these gaps helps to focus on what management practices are needed and the related personal skill set development required. There is no correct approach to ensuring the appropriate management practices are in place.
External management advisors can help to identify and implement appropriate resources. While the primary responsibility rests with ownership and management, formalizing the use of advisory resources and add to the effectiveness of farm businesses and thus their profitability. Advisory boards are an option for these farm businesses. Advisory boards differ from true boards in two ways. First, there is no fiduciary responsibility in an advisory board structure and second, there is

no legal accountability that accrues to the advisory board members. Advisory boards function like a true board of directors in every other way.
The advisory board structure has been used effectively by businesses, regardless of their size for decades. They are not an 'every day' occurrence but not uncommon either. Advisory boards are not common in farm businesses, interest is increasing. Farms today have become increasingly large and complex in terms of their investment base and ownership structure and are considered small and medium sized enterprises. Farm business owners are looking for resources that can provide them with the support they need to manage their businesses. An advisory board can be one of the resources to meet this need.

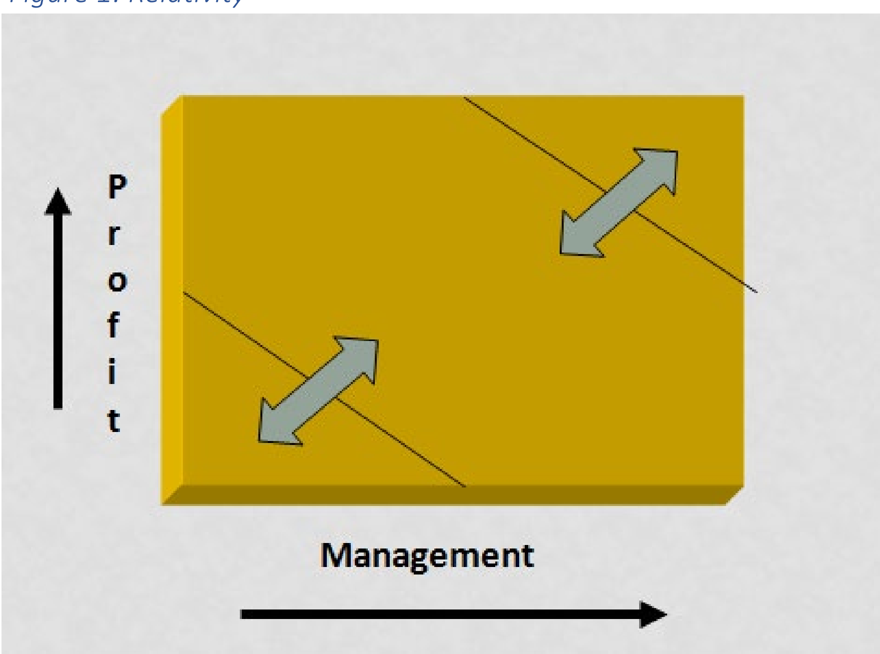
This resource has been developed to provide guidance in deciding if or when to establish a farm advisory board as well as what benefits might be realized using this advisory structure. In this guide you will find general advice on how to build, maintain and use a farm advisory board. The guide contains direction on key considerations such as advisory board member selection, developing a Board Charter, formulating agendas as well as tips for evaluating advisory board roles and functions.

Background

Relativity

Consider that all farms in Western Canada – or Canada for that matter – 'lie' within the box in Figure 1 below. The assumption is that better managed farms are more profitable. IF the population was static, there would some, but a minimum, realignment in where the farms exist from a profit and management perspective. However, the population is NOT static. There are fewer and fewer farms so the distribution of farms is continually changing. There is a function of competition.

Figure 1: Relativity



So, to the point that better managed farms are more profitable, what do farms have to do to continually advance their management? They can (and should) continually improve and advance their management competencies. They will though, at some point, outgrow or outstrip their internal management abilities. Formalizing external management resources – including establishing an advisory board – is a way to achieve this. Farms that effectively use an advisory board will have a competitive advantage that other farms don't have. This won't ensure that they optimize the profit / management correlation but it will increase the likelihood.

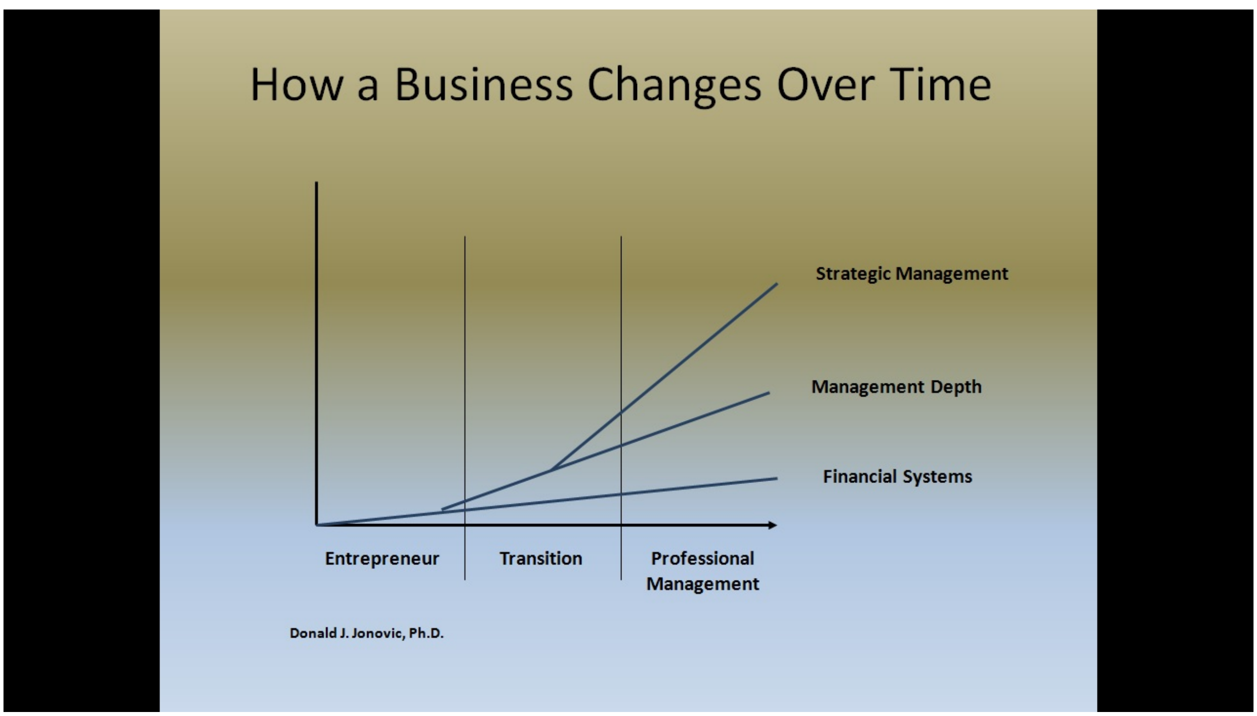
Business definition

Return on investment is generally considered to be a relationship between investment (capital) and profit. But for businesses, and especially farms, the investment also includes their time, energy, ideas and commitment. Farmers only have one absolute constraint and that is their 'time'. Where will they get the best return on their time investment? What is an acceptable return on investment? These are difficult questions to consider on your own. Advisory boards, because of their unbiased and objective input, can make a valuable contribution to the discussion around return on investment (ROI).

Business Change

How then does a business change to respond to the need to increase profitability and to respond to the increasing complexity? The illustration (Figure 2) is adapted from work done by Don Jonovic, Family Business Management Services. It looks at how management practices are required to change as a business (farm) grows.

Figure 2: Business change



The following paragraphs provide a description of each of the stages. The accompanying acreage correlations are not an exact science; they are included to provide a context for each of the stages.

Entrepreneur stage

At this stage (a typical 2,500 acre operation), there is a base financial system in place. This would include formalized record keeping that result in an annual set of accrued financial statements. Attention to management (management depth) is important, but the farmer typically focuses a great deal of his time operationally, providing a significant contribution to the labour required on the farm. As the farm increases in size, through the Transition phase and into the Professional Management phase, there is a continual requirement to advance the financial systems so that the appropriate information is available to management. The larger, 15,000 plus acreage units might want to consider a managerial, or cost, accounting application. This application is much more involved from an administrative perspective, but provides quite a bit more information in terms of cost centers and related margins.

Transition stage

Management depth starts to become more of an issue as farms grow through the Transition stage. The farmer (owner) needs to simply spend more and more time in the office. This is one of the more difficult changes to effect because it is contrary to what farmers like to do best, which is to work operationally (on the tractor). As the farm grows through to the Professional Management stage, there will be a need to add a formal middle management structure. These are people with responsibility for a certain area of management and who report to the farmer (owner).

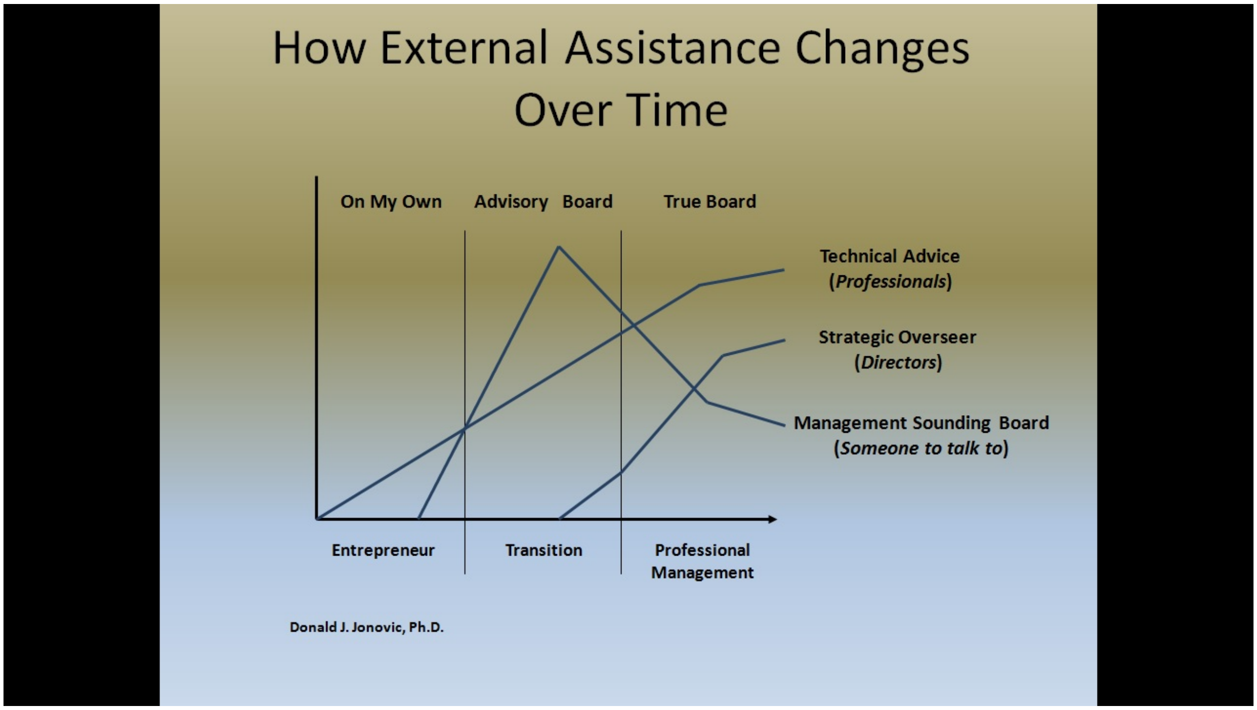
Strategic Management

During the Transition stage, the need to introduce elements of Strategic Management begins. This can look like formalizing the external resources that the farmer needs to help him with significant management decisions. The resources typically include accountants, lawyers, agronomists, lenders and management consultants. This Strategic Management function at the 15,000 acre plus size would include a formal advisory board.

External Assistance

Aligning growth and management is possible, but not necessarily an easy task. It requires continual focus and willingness to adapt change. External advisory resources can help, including advisory boards. Figure 3 shows the application of a board of directors and their correlation to growth and development of the farm business. There are several external advisory resources available to farmers other than advisory boards. Some farms do in fact have formal or ‘true’ boards. They are just not very common. For those farms that do, they will likely have followed the development and advancement as depicted in Figure 3 in some fashion.

Figure 3: External Assistance



External resources that are associated with technical assistance are increasingly important as farms advance in their development as illustrated by the entrepreneur through to professional management phases. Simply stated, as farms increase in size and complexity, they increasingly need to access professional advice from lawyers, accountants and consultants. The need to have and use these resources does not go away. Rather, it becomes increasingly important.

In the Transition phase many farm businesses begin to look for additional and complementary management resources. These resources are needed not to replace the technical and professional resources but to augment them. The concept of a management sounding board (in Figure 3) is in essence an advisory board. Farmers generally want and need someone or some structure to talk to about decisions – both ownership and management related – they are facing. The traditional resources they have used in the past (entrepreneur phase) are no longer, by themselves, adequate. In the transition phase of their growth and development, farmers can access the resources they need through 'sounding boards' in an advisory board structure.

Not all farm businesses will continue with their growth and development. At some point, the growth slows or stops. Often, there is a change in ownership that essentially splits up the business. From a management perspective this change can simplify things. The need to advance through the external assistance continuum slows. Current structures of external management resources are sufficient to meet their needs.

For those farm businesses that do continue to grow and develop, the time comes when the advisory board (management sounding board) structure is no longer adequate. At that point, the farm business and family and ownership structures demand a more formalized structure. Often this results in the evolution to a 'true' board of directors. The business will then have moved into the Professional Management phase.

Business Development Bank of Canada Study

The Business Development Bank of Canada (BDC) (2014) undertook the first-ever Canadian study on the use of advisory boards by small and medium-sized enterprises. The study described how advisory boards work in these businesses and quantitatively demonstrated that businesses that use them have superior growth and better financial results. Highlights of the study include:

- 6% of Canadian small and medium enterprises have access to an advisory board that helps them manage their business;
- 86% of respondents who have benefited from the advice of their advisory board believe it has had a significant impact on their company; and
- Canadian small and medium enterprises with advisory boards perform better financially than those without advisory boards.

Most farms would fall into the category of a small or medium sized enterprise. Survey data specific for farms that use advisory boards is not available. However, it is estimated that the numbers of farms that currently use a formally developed advisory board is significantly less than 6%.

Some, but not all the benefits reported in the survey apply to farm businesses. While farm advisory boards provide several benefits to farms, acting as a sounding board and being a support to ownership and management would be top ranked in terms of the value they provide. This is supported by the work done by Jonovic. An advisory board will, when the farm gets to a certain size and complexity, become an essential tool.

Farm advisory boards should challenge ownership and management. 'Challenge' is a key role because of the reporting and accountability relationships between the advisory board and farm ownership and management. Simply, farmers are not accountable to an advisory board. They are not required to do what the advisory board might suggest. Alternately, advisory boards have no fiduciary responsibility to the farm owners and managers, thus the importance of the 'challenge' role of advisory boards. Advisory boards can, and in fact should, challenge farm ownership and management to consider other approaches and ideas. The 'challenge' should be done constructively and NOT critically. If the latter becomes the 'style' of the advisory board, the advisory board function will not be as effective and could in fact fail.

For farms that advance to where they have implemented an advisory board, the benefit provided will be a function of being a driving force for the growth of the farm business. The advisory board can provide a degree of rigour and accountability. While there is not any reporting or legal accountability to an advisory board, there is the element of accountability that comes from the farm ownership and management team preparing for and meeting with the advisory board. In that sense, rigour and accountability do exist in an advisory board structure.

Having board meetings will require farm ownership and management to actively identify and address management issues and concerns. A well-structured and functioning advisory board requires that a formal (written AND communicated) vision and strategy for the farm business is in place. In the board's advisory capacity, it will regularly test decisions that ownership and management are making against the vision and strategy. Adjustments to the vision and strategy may be required from time to time as circumstances change and opportunities present themselves. Farm ownership and management can derive significant benefit from the advisory board's input and guidance when contemplating changes (especially major) to its vision and strategy.

In addition to the benefits listed above, the following steps have close correlation to the effectiveness of farm advisory boards:

1. Establish an effective management structure

An advisory board requires that farm ownership and management integrate all aspects of management into their management processes. Most farms have a production management orientation followed by marketing management. Finance, human resources and other areas of management receive less attention. Farms develop a better management structure when using an advisory board because the directors will ask questions about other areas of management. Advisory board directors should examine all areas of management when providing their input and that simple requirement requires farmers to develop, and manage by and against, a better structure.

2. Ensure succession of the company/business

Farm advisory boards do not 'ensure' succession of the company – in this case a farm business. But they will ensure that the issue is discussed and that plans to deal with succession (both ownership and management succession) are in place. Having a plan in place significantly increases the likelihood that ownership and management transition is successful.

3. Avoid costly mistakes

Advisory boards help ownership and management avoid mistakes. The mistakes referred to are not operational in nature. They typically refer to decisions about investment, risk and financial performance.

4. Improve strategic business choices.

Farm ownership and management, when structuring their advisory board, should expect that the directors be able to provide input into strategy development and implementation. It is fair to assume that the directors, because of their background and advisory capacity, will bring suggestions and opportunities to the board… suggestions and opportunities that farm ownership and management would not otherwise be made aware.

Advisory Resources and Structures

Boards of Directors

It is a generally accepted principle that increasing owner or shareholder value begins with a clear definition about strategy. This is significantly lacking in most small and medium sized enterprises. There are businesses though, that do have clarity around direction and purpose. They do have a strategy and vision. It is well articulated and communicated within the ownership group which for many small and medium sized enterprises can be family (perhaps including extended family). These are the businesses that are ideally suited for a board of directors. Boards will be challenged to function or, worse; will be completely ineffective IF there is no formal strategy. How does a board of directors advise ownership and management if they do not know where the business intends to head or what the investment and profitability expectations are?

The majority of businesses will have some degree of a strategy. Often, though, it will not be written down anywhere and typically will not have been shared with or communicated with anyone (family or otherwise). Perhaps it will not even be shared within the ownership group where owners are NOT related. These businesses can benefit from a board of directors because they will have to formalize and communicate what it is they are working towards. This is not easy for most people in business. The process of formalizing a vision and strategy is not concrete and takes time and discipline to accomplish. The discussions and processes used to develop a strategy differ from those used in day-to-day operations.

It can be difficult to get to consensus or agreement, especially with a diverse ownership and management group. This difficulty is often increased where family is involved, in part due to family relationships. There may or may not be a leader. If an actual leader has been identified, that person likely will not have the skills to facilitate a discussion about strategy and vision; especially if gaining agreement is going to be difficult. The person may simply be too 'close to the business'. The question then becomes who to lead the discussion if that competency within the ownership and management group does not exist.

Boards of directors can fulfill this need. A key role of a board is the development of strategy. The development must have consensus agreement. If not, implementation will be extremely difficult. Results will be less than what could potentially be achieved. A true board **IS** accountable to the ownership group. Directors are charged with the responsibility to ensure that owner value is at the least preserved and growth achieved. Everyone wants to see their situation improve. Owner value can increase. However, at the very least, no one wants to see their investment decrease or diminish. This reflects the objective of wealth preservation.

Boards are external to ownership and management. They, to fulfill their role and responsibilities, are required to think analytically about business performance. They provide input that is constructively critical in nature. And lastly, the process of simply asking questions can result in a better understanding of what ownership and management is thinking. Through these questions comes understanding. This helps to advance the business, and helps to preserve and build owner value.

Owners and the Board

A board of directors ensures that the strategy is translated into operating targets. In a 'true' board structure, directors have a fiduciary responsibility to the owners or shareholders that includes optimizing financial performance. Ultimately, the Board is responsible for the company's performance. If financial results are less than expected or desired, the board is responsible. Management is charged with operations. So if financial outcomes are unsatisfactory, the Board questions management to first determine why the results are what they are and second, to instruct management to make the appropriate adjustments. Applying the adage that 'you can't manage what you can't measure'; a business has to have targets in place so that they can be used to monitor management's performance.

The hierarchy, and related reporting and accountabilities are important. They reflect the organizations structure and provide guidance to who and what entity is responsible for what. Interestingly, management is compensated for their performance. Management's performance is, in part, measured by financial outcomes of the business. Management is provided with the strategy as developed by the Board and Owners. Management's role is to translate the strategy and to put it into operation. Operations are the engine. However, if the strategy is flawed, management will not be able to achieve the desired performance even with a solid operational plan.

The strategy must be well thought out and appropriate given all the conditions that exist in the internal (within the company/business) and external (outside the company/business) environments. If the strategy is flawed and operations cannot achieve the desired results, owner or shareholder value will suffer. Owners will hold the Board accountable for the strategy. So, a full circle of accountability exists.

Not all businesses are required to or choose to have formal boards of directors. There are several reasons why a business may choose not to have a board. These include:

1. To preserve independence - *Why should I let someone tell me what to do?*
2. To keep control - *Isn't that part of being the boss?*
3. To avoid bad advice - *What do outsiders know about my business anyway?*
4. To maintain confidentiality - *Can I trust that I won't hear about my business on the street?*
5. To avoid embarrassment - *What if my business is a mess?*

Boards and Advisory Boards

Advisory boards differ from true boards in two major ways. Firstly, there is no fiduciary responsibility in an advisory board and secondly, because there is no fiduciary responsibility, no legal accountability accrues to the advisory board directors. The structure and function is completely flexible and can be designed to meet the needs of the business. It is the fiduciary responsibility (or lack of) that underpins the "Directors decide" and "Advisors recommend" contrast. Advisory board directors (referred to as 'Advisors' above) can only recommend or challenge. They are not empowered with the authority to decide.

A big-company board of directors is a much less "consultative," and a much more "governance" oriented group than an advisory board. It has fiduciary responsibility (for financial decisions and their outcome). It also has oversight responsibility to make sure management is not acting in an illegal or ill-advised manner. Larger company boards' primary job is to watch out for the interests of the shareholders-who cannot sit in the boardroom (they usually do in a smaller company). Smaller companies typically neither need nor want this level of board control (Cagan, 2012). Advisors, on the other hand, serve management, not the board or shareholders, unless they are one and the same. Their sole function is to provide management with advice and counsel — strategic and tactical, and business connections. Advisory boards “work for the CEO” and while that can be true, advisory boards can also be constituted to work for owners and shareholders (exactly similar to true Boards).

Therefore, advisors are selected for specific expertise, including having deeper industry and technical knowledge, and a robust contact database. They augment management’s perspective on business issues: general business, industry-specific, technical, and regulatory; and also provide deeper expertise in skills like sales, marketing, finance, legal, manufacturing, research and development, logistics, and international business.

While financial disclosure to an advisory board is not legally required, for an advisory board to be effective, they must have access to the financial information they need to fulfill their director roles. It will be difficult to achieve the quality of advisory board directors desired if advisory board members or candidates perceive that they are going to be functioning without the information they believe they need.

IMPORTANT NOTE: Advisors typically serve management BUT Advisory boards can be organized and constituted to function completely like a true Board, simply without the fiduciary, liability and accountability components. Businesses can and will continue to use advisors in their professional capacities and choose to augment external resources by establishing an advisory board or, as needed, a true board of directors.

Advisory Boards

Why have an advisory board

Future focus

There can be several reasons why businesses will have an advisory board. Advisory board function includes providing assistance with the development and implementation of strategy. Not all businesses are at a point in their developmental lifecycle where they need an advisory board. It helps to create an understanding of the need for an advisory board. One way to do this is to think about the business and family as it presently exists. Who is involved? What is going on? How big and/or diverse is the business? How is the business being managed? Once there is a clear picture of the current structure, reflect back to what the answers to those questions would have been 10 years ago. Then think forward 10 years. Would the formality of an advisory board be a useful resource as the business and family move into the future?

Ownership

Many businesses have, and will have in the future, shareholders and stakeholders (a stakeholder is someone who has a vested, but not legal, interest in the business) who are not actively involved in the business. With many small and medium sized businesses the situation involves siblings. One or two siblings are in the business together while others are working at careers in typically different locations. They are not involved in the day-to-day operations and related decisions that occur. But they have a need and a right to be informed. They have an investment in the business and want to ensure that their investment is being properly managed. Advisory boards can play a key role in providing confidence that the business is well managed. Advisory boards are unbiased in their opinion and can fairly report on business performance.

Management performance

Another advisory board function is related to the ownership and management structure of the business. In a small or medium-sized business management and ownership are almost always one and the same. So, if the person who is responsible for making the changes in management is not getting the job done, who do they report to? Themselves? Typically, business owners and managers use their accountant and lawyer as their management resource. But while they meet with their professional advisors, they have no accountability to them other than what is a function of compliance requirements – the requirement to file annual tax returns for example.

The lack of accountability can be a major issue and at the same time, one of the easiest to remedy. Change is unavoidable. How business ownership and management deal with it is what is important. An advisory board brings accountability to the management discussion. Note that the accountability to an advisory board differs from a true board. The owner(s) and manager(s) are not legally accountable to an advisory board as they would be to a true board. However, there is accountability in an advisory board structure as owner(s) and manager(s) are required to prepare for and report on business performance at advisory board meetings.

When to develop an advisory board

Owners and managers must accept at some point in their business growth and development that they do not know everything. This is generally difficult for owners and managers. People have expertise when it comes to managing their own business, but sooner or later it becomes apparent that there is a great deal that they do not know. This includes internal factors that impact on business performance as well as external factors such as consumer and industry trends and market forces in the larger business world. Recall the discussion earlier about businesses outgrowing management. That is where other people come in – men and women whose knowledge, skills, experiences and talents complement those of the owners and management. (Irwin)

Businesses can reach a point in their growth and development where it becomes difficult to find peers to discuss business management issues with. The management issues facing a really large business are different from those that a small or modest business encounters. This is not a matter of 'right and wrong' but rather a function of finding someone or some entity that has similar concerns and interests. Advisory boards are an appropriate structure in these situations. Similarly, brain storming new ideas is a significantly more productive and potentially beneficial discussion when the dialogue occurs with peers or a peer structure.

Advisory boards have several key functions. One is to assist with the development and support to the implementation of long term strategy. An advisory board helps a business define what it is working towards. Once defined, the board holds the business accountable to working towards its stated outcomes. An advisory board, with few exceptions, should *not* drill down into issues that are a function of day-to-day management – dealing with the fires that flare up and that must be dealt with.

For a lot of business owners and managers, it is difficult to change the way they manage their businesses. The tendency is for ownership and management to revert to long-held management patterns. It takes a lot of discipline to adopt new management practices.

As previously noted, one of the challenges business owners and managers face is aligning management and investment decisions within a defined strategy so that acceptable financial outcomes have a reasonable chance of being achieved. There is no one specific increase in size that mandates a certain change in management practices. The management changes required to keep pace with growth and development are subtle. However, the need to align growth and management is very important. Properly structured and functioning advisory boards provide support to these challenges.

Small and medium sized enterprises are for the most part are an owner/operator business. Most owners and managers will find it difficult to get to the ideal of unbiased analysis. It can be difficult to effectively separate business from emotion when dealing with certain management and business issues. Family members in business together add yet another dynamic to the discussion. It can be even more challenging to get families to make decisions based on unbiased analysis.

Advisors in general, in their professional capacities, provide assistance in these situations. **But** their focus tends to be toward their specific expertise and experience. Advisory boards are better suited to fulfill this role, primarily due to their make-up and function. They provide an honest assessment of the business and of the significant business management decisions that business owners and managers face.

A properly functioning advisory board will provide ownership and management with an honest and unbiased assessment of business performance. The input should be constructive but NOT critical. It can be a constructive critique on management but should not be overstated, and definitely not personal. Owners and managers can, when dealing with significant business and management issues, find themselves in situations where it is either a win-lose or lose-lose outcome. Issues that, no matter what the outcome, will have internal consequences. Advisory boards are not subject to these internal consequence(s) because of their structure and relationship with ownership and management. This enables an unbiased and honest assessment of the situation.

Advisory boards can be an effective and important resource for growth of any sized company. They can be tailored to meet the specific needs of the business in terms of the size of the board, its related costs and how it is structured (constituted). According to Ward (n.d.), “no business is too small to benefit from having an Advisory Board and an Advisory Board is such a powerful management tool that no small business should be without one”.

True boards of directors have several primary functions:

1. Assisting with setting strategic direction
2. Managing capital investment
3. Managing risk and protecting the assets of owners
4. Planning for and supporting transition or succession planning
5. Monitoring financial performance
6. Providing input to compensation of owners and senior or executive management

Advisory boards can, in their support to ownership and management, fulfill each of these functions.

Advisory resources for farmers

There are several structures that farmers use as external management resources, but which are not formalized as advisory boards. Farmers use traditional advisory services such as accountants and lawyers. More recently, and as well due to increasing size and complexity, management advisors are being used by farmers. Examples of management advisors are agronomists, marketing advisors, nutritionists, human resource advisors and general farm management advisors.

The majority of farmers have and continue to use these resources on an ad hoc or 'as needed' basis. Some progressively managed farms are formalizing relationships within these professional advisors to form their advisory 'team'. The 'teams' may strategically only include 2 or 3 of the advisors. For example, getting the agronomist and marketing consultant together. Or the accountant, lawyer and general management consultant.

While any of these individuals could act as a director on an advisory board, collectively as a group they are not organized as a formal advisory board. They function as the farmer's advisory team – a function that differs from an advisory board.

Some farms have increased in size and complexity to where they are employing specific advisors – bringing them 'in-house'. An option, which is not very common to this point, is for 3 or 4 farms to share in the employment of one or more of the specific advisors. For example, a single farm may not be able to justify the investment in a human resource advisor but 4 farms together could. The advisor would regularly visit with the farms and deal with the internal management issues related to human resources.

There are other structures that farmers use as external management resources, but which are not formalized as advisory boards. For example, a group of local farmers who get together regularly to talk about management is not an advisory board, but rather a discussion group. They will sometimes meet regularly and have a formal agenda. These discussions can be beneficial but may tend to drift into social interaction and simply a forum to reinforce opinion.

Yet another advisory option is a group of actual peers. This can be a standalone peer-to-peer group or a peer-to-peer group that is part of a larger, formal network. There are pros and cons to any advisory structure. Peer-to-peer networks can be helpful; however there is a potential for bias with this type of structure. For peer-to-peer groups to achieve optimum benefit, the group MUST ensure that they are in fact a group of peers.

Management clubs exist of which farmers are members. They tend to be geographically localized. Many have existed for several years and are an extension of marketing clubs that were formed in the ‘80’s and ‘90’s to help farmers with marketing. Marketing clubs became popular with the changes to grain transportation and subsidies in the mid–90’s. Many were quite successful and provided a good forum to help farmers advance their marketing skills. They tended to run their course over time though, and those that were not able to transition to more general management clubs folded.

Interest in advisory boards and ‘true’ boards is increasing but still relatively uncommon. No farm business is too small to have an advisory board. However, realistically, most modest sized farms will not be able to justify the financial investment or the time required. Typically, larger more complex farms are ideally suited for an advisory board. Farms with significant growth aspirations coupled with a progressive management mindset will be able to derive value from an advisory board.

The advisory board function is specific. Potential directors on a farm advisory board MUST have a genuine interest in the farm business. They must be singularly focused on advancing business performance. This is in turn reflects back onto the well-being of farm families who have stakeholder and shareholder interests in the farm. Directors, even though they may be in a business that provides services or products to farms, must not use their position to promote sales.

Simply stated, the advisory board for a farm is like having a management think-tank. It provides access to people with expertise and experience that the farm ownership and management can use to help with business decisions. Feedback on new ideas, assistance with difficult issues and suggestions of alternatives are other anticipated benefits from an advisory board.

Farm Advisory Boards

The previous discussion has looked at the different advisory resources that are available to farmers. The focus will now shift to advisory boards in a more detailed discussion and application to farm businesses.

Advisory board functions for farm businesses are similar to any small or medium-sized enterprise. As with all advisory boards, the board will not set the strategic direction but it will assist with its development and perhaps of even more value, it will assist with and support implementation. The advisory board will work to hold ownership and management accountable to the strategy. The accountability is in essence discretionary as ownership and management are not structurally required to act upon or follow directives set by the board. The accountability primarily comes from ownership and management having to report to a board meeting on their activity.

As with other small or medium-sized enterprises, farm ownership and management does not have to do everything the advisory board suggests. However, if it becomes apparent to the directors that there is no intention at all of listening to and following through on suggestions made by the board, they will resign, the advisory board resource will fail and farm ownership and management will have derived no return on the investment that was made.

A farm advisory board can be a very good resource to farms when it comes to financial advice, especially around capital investment decisions. Historically, farms have struggled with being overcapitalized. Many investment decisions are made without the appropriate analysis. Many farm owners have difficulty effectively separating the business and emotion components in the decision. An advisory board will help. They will work within the established strategic direction, asking if and how the investment is aligned with the strategy.

Managing risk is another area where advisory boards can provide value. An advisory board will proactively work to maintain a focus on managing risk. Many farms do a very good job of managing operational and market risk. A board will help ownership and management to broaden their focus to include strategic risk and other less common potential risk events.
A farm advisory board can also provide input to management on:

- management performance evaluation;
- compensation;
- governance; and
- transition or succession readiness.

Most farms have not formalized the management performance evaluation process. Management is responsible to evaluate the performance of employees but who or what process is used to evaluate management's performance? If management and ownership are one and the same, who does management report to? Who is management accountable to? Advisory boards can effectively fulfill this role. Directors can design the evaluation methods used and work to ensure that an evaluation is carried out, providing constructive insight in their review.

Compensation closely follows management performance evaluation. Directors have expertise and experience with compensation. Similar to the performance evaluation, their input into compensation discussions will mostly be for management. There is another compensation component. Advisory boards can assist farm family businesses with decisions about compensation to ownership. How are owners who are actively involved in the business compensated? At what rates? What options are available? They can also provide input into compensation to ownership that is NOT actively involved in the business. Can shareholders redeem preferred shares? Or shareholder loans? What can the business afford? These decisions can be difficult if the people making the decisions have a vested interest in the business and typically in most farms, family is involved. So again, challenges in separating business from emotion when dealing with compensation.

Building and Maintaining a Farm Advisory Board

Advisory board framework

There are some foundation-type steps that should be taken by ownership and management prior to starting a process to formalize an advisory board. Ownership and management need to work through an internal review of their strengths and weaknesses. The better understanding they have about their management, the better prepared they will be for the advisory board – both in developing the board that will best meet their needs and in terms of getting optimal results from ongoing advisory board function.

There needs to be clarity around the purpose of the advisory board. Ownership and management needs clarity on this as do potential directors. It is obviously very difficult for advisory board directors to gain an understanding of the purpose(s) of the advisory board if ownership and management do not have a clear understanding of what they want.

The number and type of directors is very important. Once the purpose of the board is established, the number and type of directors can be determined and the selection process can proceed.

Lastly, a clear understanding of how the advisory board will function is required. How many meetings. What type of meetings. Where will they take place. All questions that benefit from some pre-thinking on advisory boards before 'diving in' their development.

Advisory board charter

A DRAFT written charter includes important information about the structure and function of the advisory board. It should be developed and presented to <u>potential</u> advisory board directors and then once the directors have been selected, reviewed and finalized at the first meeting. An advisory board charter includes:

- A clearly defined purpose for the advisory board. Key questions include – what are the objectives, standards and goals of the advisory board?
- Detail on the roles and relationships between the board and ownership and management. This will result in everyone (ownership, management and advisory board directors) understanding their roles and the relationships that exist. Key questions here are - how much direction is going to be exchanged between the directors and ownership and management; what are the expectations? The Charter needs to have enough detail so there is a basic understanding of the roles and relationships.
- A statement about confidentiality expectations. Farmers do not want to hear about their business in the coffee shop. Nor do advisory board directors want to have their opinions and input made public.
- Detail on membership. How many directors? What are the terms for each director? How will the directors be compensated?
- Information on the structure of the board. The advisory board can have formal structure including a chair, vice-chair and secretary roles. Or, ownership and management can decide to form the board without a formal governance structure. The description of the structure

should be included in the Charter. At the very least, a chair of the advisory board is required. This can be someone from the ownership group (that is, one of the farm family). However, if ownership recognizes that the advisory board would function better with one of the directors as chair then this person can be appointed accordingly. The goal is to derive maximum value from the advisory board and there is correlation between board effectiveness and board leadership. The chair assumes a leadership role within a board and as such, it is important to have the best person in the role.

- Detail on procedural guidelines. How formal does ownership and management want the advisory board to be? Are there by-laws? By-laws are not required because there is no fiduciary responsibility or accountability between the advisory board and ownership. However, there can be situations where a few by-laws could be beneficial. A suggestion is to start without formal by-laws with the option of adding them in the future. If this option is used, the Charter should include a statement to indicate the intent is to consider integrating by-laws in the future.
- The Charter should include information about decision making and voting. Is voting going to be used? If so, under what conditions and for what types of decision and issues? How will votes be taken? What will constitute a carried vote? If voting is not going to be used, then how will decision be made? Will a consensus opinion be used or will ownership and management take information (i.e. advice) from the advisory board and make their own, independent decisions. A statement in the Charter should include detail on voting intentions and processes for decision -making.
- A statement on liability.
- A place for signatures (with date) by advisory board directors and ownership indicating that the Charter has been reviewed and agreed to.

Membership

The goal is to find the best candidates possible to be on a farm advisory board. Finding potential directors will be a challenge for many farms. A single source where someone can access a list of potential farm advisory board members does not exist. Industry specific organizations such as commodity groups may have a source. These groups typically have a functioning board of directors so these candidates will have previous board experience which can be an asset. However, experience being a director of a not-for-profit commodity group is significantly different from the expectations associated with being a farm advisory board director.

Businesses in general are a good source of potential directors. Candidates may not, or likely will not have actual advisory board experience. However, they come from the business world and will have experience to draw on that helped them achieve success and manage through challenges and difficulties. These are desired attributes in a farm advisory board structure. Agriculture and non-agriculture businesses should be considered. For example, an owner or manager of a successful privately owned retail outlet.

Organizations that have retired professionals are a good source. These people have years of experience and expertise that could be of benefit to the advisory board. They may be more likely to have the time required to commit to being an advisory board director and may expect less compensation for their time. Ownership and management can also consider personal and business relationships and contacts when recruiting potential candidates.

Lastly, check with other boards. Ideally other advisory boards but also true boards. Many people, especially retired or soon-to-be-retired professionals will consider sitting on more than one board. People with good contacts in key areas can help with identifying potential business opportunities and with the additional resources required to meet the needs of the farm business and family. Directors, due to their breadth of expertise, experience and career networks can significantly enhance and expand ownership and management's existing relationship base.

There can be some benefits for including lenders, accountants and lawyers on advisory boards. The respect factor, especially from a business advisory perspective, must exist. They have an in-depth knowledge and understanding of the operation so could bring that base to the farm advisory board. This previous knowledge helps to enhance the advisory board experience and can increase return on the investment being made.

Some argue that a farmer already has access to these resources and they may come to the advisory board with their professional hats on – meaning they will come to board as 'lenders, accountants and lawyers' and not as advisory board directors. As directors on an advisory board they must be able to be primarily concerned about the farm business.

Ward (n.d.) stated that "… more than anyone else, your Advisory Board will be on your side. They will be people with no axe to grind who want to listen to you and advise you. Above all, they'll want to contribute to your business's well-being."
The following list of attributes can be used to identify potential advisory board directors:

- People with skills and knowledge in areas that do not currently exist internally ;
- People with relevant experience;
- People who are honest and willing to be engaged; and
- People who genuinely are interested in the success of the farm business.

There are several steps to take in terms of recruiting members that will result in an effective farm advisory board. These include:

- Create a profile of the desired board members, paying particular attention to the expertise and knowledge base that is needed to address the business opportunities and challenges anticipated in coming years. It is helpful to develop a list of the most significant management challenges and opportunities facing the business.
- Make a list of desired characteristics of potential directors. Consider a mix of men and women. More senior people may have a greater base of experience. On the other hand, younger people often bring a vitality with them and often will have a different perspective on the challenges and opportunities.

- Ask for assistance. It may be difficult to identify a large enough list of qualified potential advisory board candidates. Do not be afraid to ask other potential candidates for suggestions and recommendations. They are often happy to help, especially if they are an appropriate candidate themselves (remembering that their purpose is to help the business succeed). Board selection is NOT a competition. It's about ending up with the most appropriate and capable board possible. Not all suitable candidates will be able to or interested in a board appointment. So, there is a need to have as large a list as possible (within reason).
- Create a good mix. An effective board of directors often includes a legal expert, an accountant, a management consultant, a marketing professional and a financial advisor. Other good candidates are successful entrepreneurs from industries outside of farming, who have "been through the mill" and can look at the farm business with a fresh eye and a different perspective. Target ex-CEOs who have substantial strategic skills and management experience.
- Take time to talk with prospective advisory board members. Ownership and management must be clear about their goals and strategic direction. Irwin states that 'You don't want people to rubber-stamp your decisions – that you're looking for individuals who can challenge you and help your business grow.'

Ultimately, the selection of any board member becomes a function of the best people contacted and the ability to convince them to participate as a director on the farm advisory board. However it can be very helpful to start off more strategically with a *wish list* of characteristics as well as potential prospects.

Selection process

The selection process for board members includes the following steps:

1. Develop a list of suitable candidates
2. Review and prioritize the list. Not all candidates will be suitable nor will all candidates be able or interested in participating. Consider developing a list of 9 or 10 candidates for interviews for 3 board positions.
3. Arrange an interview with each candidate. Candidates should receive an information package from ownership and management. An option to moving right to an interview is to conduct a pre-screening interview. Contact selected candidates from the list and talk them about the advisory board concept. Ask them if they are potentially interested in serving as a director. If they are, send them the information package prior to the formal interview. Note that the interview is actually a '360' process. Potential candidates will be interviewing ownership and management while they are themselves being interviewed. It is NOT a competition. The purpose is to select the most appropriate candidates – candidates that will help achieve desired business outcomes.
4. The information package should contain:
    i. A copy of the strategic or business plan. At a minimum, potential candidates must be provided with written, personal and business goals and objectives.
    ii. A written historic record of the family and business. A genogram is a tool that can be included to provide a "picture" of the family.
    iii. An organizational chart that details current management structure.

iv. A summary financial report and analysis.
v. A statement from ownership and management that defines what the directors can expect from them.
vi. A copy of the draft charter for the advisory board.

5. Instead of an interview a written submission could be requested from the candidates on what their understanding of the advisory board role will be *and* what they think they can bring to the table.
6. Review and select or go back to the screening list to find additional candidates.

Benefits of participation

An advisory board relationship is not the same as a client or business relationship. Individuals on an advisory board have an opportunity to interact with ownership and management within a unique relationship. Directors want the business to succeed. They will also be interested in learning from their experience as a board member. The knowledge they gain can be transferred to other situations they encounter through their work or professional capacities. Relationships with other directors will be developed and with that is the potential for cross business referrals. For most directors, the chance to participate in a leading-edge activity will be enticing. The ideal candidate will typically be highly motivated to try new things.

Advisory board structure

The structure and function of an advisory board is completely flexible and can be designed to meet the needs of the business. In terms of the number of directors to include there are differing opinions with as few as 3 members and no more than 7 members.

An accountant and lawyer can be on the advisory board, but as said before they should not be at the boardroom table in their professional capacities. They must be able to function as an advisory board director during the meetings. However, at times in the meetings, they may actually be asked to wear two hats – their director hat for most of the meeting and when it comes to a presentation of financial statements, they would be wearing their accountant hat. There are professionals who are not able to separate the roles and therefore would NOT make ideal directors. In this situation, they can and should attend board meetings but only for the agenda items that pertain to their professional capacities and roles. It is important to remember that their ability to function as a board member is more important than their professional affiliation.

A farm management consultant who has a broad background can be an asset to an advisory board. In their role as a consultant, they will have firsthand experience with other farm operations. With that base of information, they can make a valuable contribution. However, similar to lawyers and accountants, they MUST be able to separate their roles as well. As an advisory board director, they will not be consulting to the business.

It is strongly recommended to include one or two board members that are not primary agriculture related and perhaps not directly associated with agriculture at all. Look for people who have been successful in their business and personal careers. They will bring this background with them to the board table. Their experience and perspectives, differing from agriculture, can be a valuable contribution to the discussions between the ownership, management and the advisory board.

Recently retired executives and business owners are excellent candidates. They have the correct and desired background and, especially relatively early into their retirement, are often looking for initiatives and projects to keep them active and engaged. They have the luxury of time and are often well-positioned financially and with that, can be willing to accept a compensation package that is affordable for the farmer. For some of these individuals, there will be an element of stewardship or 'giving back' to the industry. They may especially be interested in an advisory board structure that includes younger farmers.

Set lofty expectations for potential directors. Aim high in terms of who you would approach.

Using an advisory board

Setting agendas

To conduct an effective meeting it is important to make sure there is an agenda with specific goals. A well developed and carefully thought through agenda ensures a more effective meeting. There is direct correlation between meeting preparedness (includes setting the agenda) and meeting outcomes.

Agendas and any related material should be distributed will in advance. This is part of the expectation advisory board members will have. Board members are busy. It is fair expectation that they read material and prepare for their contribution to the meeting. In return, ownership and management must give them time to prepare. Thus, sending meeting information well in advance is a must. It also provides an opportunity for any feedback from directors prior to the meeting with suggestions for adjustments or additions to the agenda.

Meeting structure is very important. Have a structure for the meeting helps to avoid wasting time – which is a precious resource and importantly, it improves board function and enhances outcomes and the experience for all involved.

Meeting frequency

The general advice is that advisory boards in meet on a quarterly basis, so 4 times a year. More frequently, and the board can be caught up in the day-to-day operations as there is time for the board to get caught in the small issues. Farm ownership and management specify the meeting frequency. Some may choose for the advisory board to meet annually. However, the minimum recommended meeting frequency is semi-annually. Schedule meetings well in advance, even up to a year in advance. Sufficient advance notice is required for directors with busy schedules.

Ownership and management can call also special meetings if some urgent issue or opportunity arises. Alternatively, ownership and management can contact individual directors with specific questions in between meetings. A caution with this approach is to keep all members apprised of developments. Communication with the board as a whole is very important. Poor communication will make the advisory board less effective. It can cause directors to become frustrated and even resign if they think they are not getting all the information they need to participate.

Meetings can run part or half-day or full-day. They can be scheduled around meals for efficiency. However, note that some literature recommends meetings NOT exceed 2 hours. Meetings can be good times for board members to visit company offices and facilities. Meeting frequency should be aligned with business growth and complexity. Too many meetings are not good but neither are too few.

Consider three things in general, when formulating the advisory meeting structure.

1. Ensure that meetings deal with business issues.
2. Establish a formal mechanism for mentoring (for ownership and management). The advisory board structure, while it is in place to primarily focus on business success, can also be used to advance professional development for ownership and management.
3. Use team building exercises for the board. It can be as simple as everyone having dinner together or can include the use of formal exercises. The advisory board should be a high performing team, in the same way ownership wants management and employees to be a high performing team.

Pilot advisory board meeting

Taken from work done by Small Business Canada, one option to get going is to host a pilot-type meeting once the board candidates have been selected. This option can used for ownership and management AND board directors to test the advisory board structure. After the pilot meeting, adjustments can be made before starting with the more formal and structured advisory board functions.

A sample agenda for a pilot meeting follows. Compensation for this meeting can range from out-of-pocket expenses only to include an honorarium for time as well. The General Discussion section is an opportunity for feedback. There may need to be some further discussion with directors prior to the first, formal advisory board meeting. If a director decides the structure is not for them, ownership and management will have to work through the selection process to identify a replacement.

Ownership and management may, after the pilot meeting, decide an advisory board structure is not right for them. They would simply advise the potential directors accordingly. This would result in a minimum investment being made by ownership and by the board members.

Sample Pilot Meeting Agenda

9:00 – 9:20 - Why An Advisory Board?
(A brief statement of how you see the Advisory Board operating and the contributions you hope the Advisory Board can make to your company. Include details such as how often the Board will meet.)

9:20 – 9:45 - Questions and Discussion
(Ask Board Members how they see the Advisory Board operating and how they hope to contribute.)

Discussion Topic: (Insert a Question/Problem Statement here.)

9:45 – 10:00 - Presentation of the Discussion Topic
(An outline of the history of the topic and how it is presently affecting the company; refrain from giving personal views or solutions at this point.)

10:00 – 10:15 – Break

10:15 - 11:15 - Discussion
(The board chair must work to keep the ideas flowing at this stage; don't reject or dismiss ideas at this point. Do contribute personal ideas and views.)

11:15 - 11:30 - Proposals/Resolutions
(Evaluating the ideas the group has heard and choosing the best "solutions".)

11:30 - 11:45 - Summary
(Summarize the topic, the discussion, and the results for the group and tell them what actions will be taken)

11:45 – 12:00 – General Discussion and Adjournment
Date of Next Meeting - (Fill in date here.)

General information on meetings i.e. schedule and expectations

Some general guidelines for conducting advisory board meetings include:

- Meeting times should be set. This respects everyone's time and schedules. Any deviation from the set meeting time needs to be approved by the advisory board.
- Meetings must be chaired. In most farm advisory boards, one of the owners will be the chair. This is NOT a requirement though. If it makes more sense for one of the directors to be chair, ownership should set this in place.
- Meeting notes … or the more formal meeting minutes … should be recorded and distributed. The notes should include any relevant or important reports. For example, reports that have impact on the strategic direction of the business and reports on financial

performance (year-end information and analysis, year-to-date performance, capital investment decisions)
- Meeting agendas should include presentations and updates from ownership and management. Guest speakers and presenters can be an option.

Initial advisory board meeting

The initial meeting of a farm advisory board is an opportunity for all parties involved to get to know each other and to begin to develop relationships and trust. As part of this agenda, ownership and management should take some time to provide an overview regarding why they formed an advisory board and their expectations. During the selection process, preliminary discussions will have occurred with board members but it will be helpful for everyone to hear and participate in a discussion about the board formation. As part of this conversation, a review of board function should be included. This too will have been discussed during board member selection but people will benefit from a collective discussion on the role and function of the advisory board. This discussion assists in gaining clarity and consensus on purpose and function of the advisory board.

At the initial meeting, it is important to include a discussion about expectations around communication and information. How much information (printed or electronic) do advisory board directors want or believe they need? Are committees going to be included in the board structure? Who is going to be the chair? How were or will they be selected? Is there going to be a vice-chair and/or secretary? The initial meeting is a good time for ownership and management to confirm how they intend to work with and utilize the advisory board and how they intend to apply what is discussed to their business management.

The Draft Charter for the advisory board will have been distributed during the selection process. Editing, adjusting and ratifying the Charter are very important tasks for the Initial meeting. The Charter becomes the blue print for board function so all members should have input.

Sample Initial Meeting Agenda

9:00 – 9:30 – Introductions
(An opportunity for individuals to introduce themselves. Allow sufficient time for some discussion as a first step in developing relationships.)

9:30 – 9:45 - Why An Advisory Board?
(A brief statement of how you see the Advisory Board operating and the contributions you hope the Advisory Board can make to your company.)

9:45 – 10:00 - Questions and Discussion
(Ask Board Members how they see the Advisory Board operating and how they hope to contribute.)

10:00 – 10:15 – Break

10:15 - 11:00 – Advisory Board Function
(Provide details on how the Advisory Board will function. Terms / meeting frequency / Roles and formal responsibilities / committees / information distribution)

11:00 - 11:30 – Charter Development
(Review, discuss and finalize the Charter)

11:30 - 11:45 – Application by Ownership and Management
(Overview and discussion on how ownership and management will use the Advisory Board.)

11:45 – 12:15 – General Discussion
(Could include a discussion about a management challenge or business opportunity.)

12:15 – 12:30 – **Closing comments and Date of Next Meeting**

12:30 – 1:00 – Working Lunch (Optional)

(Optional but recommended as an opportunity to further develop relationships.)

Second advisory board meeting

The second meeting builds on the initial advisory board meeting and is unique from the perspective that it is the first regular advisory board meeting. Thus the agenda can include different discussion points from the initial meeting. However, the agenda should allow for a review or debrief of the initial meeting.

At the second meeting a review and discussion about two key advisory board functions – namely providing input and direction on strategy and financial performance. The discussion needs to occur at this meeting to give all directors a chance to get on the same page. This discussion provides all board members an opportunity to voice their opinion and to hear what others think. The meeting should include a discussion about other areas of management that ownership and management, in conjunction with the directors, believe should form part of the regular, ongoing meeting discussion. For example, managing risk and human resource management (specifically discussions on compensation) can be included.

Generally, ongoing meetings will have a discussion about current or urgent management issues and challenges. As well, a regular discussion on new business opportunities should be included. At the second advisory board meeting the schedule and agenda for ongoing meetings should be established. Changes can be made at any time but the basic structure for ongoing meetings can been established.

Sample Second Meeting Agenda

9:00 – 9:15 – Opening Comments
(An opportunity for individuals to provide updates. An opportunity for ownership and management to provide updates.)

9:15 – 9:30 – Review Minutes from Previous meeting
(A review and discussion. People will have thought about the discussion from the previous meeting.)

9:30 – 10:00 – Review Strategic Direction
(Review the strategic plan and ask Board Members for their comments and input.)

10:00 – 10:15 – Break

10:15 - 10:45 – Review Financial Performance
(Review financial performance and present capital investment plan. Ask Board Members for their comments and input.)

10:45 - 11:00 – Additional Management Practices
(Review any additional management practices.)

11:00 - 11:45 – Specific Management Challenge or Business Opportunity
(Discussion on management challenges and business opportunities.)

11:45 – 12:15 – General Discussion
(Open forum –type discussion.)

12:15 – 12:30 – Closing comments and Next Meeting
(Discuss agenda structure for ongoing meetings. Set meeting dates.)

12:30 – 1:00 – Working Lunch (Optional)
Plan for ongoing meetings – dates and frequency

Agenda Options

Meetings can be structured as suggested in the sample agendas where a standard format is applied. Or, meetings can be focused on specific management concerns or business opportunities. Depending on the level of comfort and relationships developed with the board members, meetings can also focus on personal or family related issues and concerns. Meetings do not always have to deal with farm business management issues and concerns.

If members agree, one meeting could be focused on management development or professional development. For example, a meeting could be used to review and discuss a generic business management case study. This can be effective in getting the farm family and management team to think 'outside the proverbial box'. This can be a very good way to create context for a discussion about management and about future direction.

How to compensate members

Members are actually advisory board directors. Compensation varies widely depending on the size and complexity of the farm business and the demand for the advisor's expertise. Fees can be fixed based on a relatively fixed time commitment, or they can be variable based on the number of meetings, calls, or assigned tasks. Compensation can be cash or equity, or a combination of both. However, farm advisory boards will rarely provide an equity alternative to directors. The cash fee can be a monthly or annual retainer, or variable, perhaps per meeting.

Keep in mind that there can be an element of 'getting what is paid for' when it comes to compensation. Compensation needs to be enough so it is not insulting. It could be a couple of hundred dollars an hour for their time, or somewhere around $1,000 to $1,500 per meeting. However, according to Brown, '… not so much that they will be attending the meetings for the money.'

How much is enough ... or too much? Try creating context for the investment. Test the decision to compensate against a percentage of sales as an example. For example, 0.5% of gross sales. Is this amount reasonable for the total compensation of the advisory board? While it can be difficult to measure the return on investment, that is exactly what needs to be considered. If there is no return on the investment, meaning that there is no value at all coming from the advisory board, the compensation discussion is easy. Do away with the advisory board structure completely. But when there is value - where past the 'no value' at all does the return on the investment being made sit? Remember, that there is a financial investment PLUS an investment of time. Given the investment required on farms today, and the volatility that exists, one decision alone can easily generate a huge return on the investment made.

Generally, the premise that underpins advisory board compensation is that the compensation is an investment and not a 'cost'. Like most things, you tend to get what you pay for. Generally, it would be better to not have an advisory board structure at all than to try and minimize the cost.

Some advisory boards pay annual retainers, and attendance is expected, but there is no separate meeting fee. Others pay only for attendance. Still others combine the two - a fixed annual retainer plus an additional stipend for each meeting attended. The later model is preferred if it is anticipated that the members will be consulted on issues between meetings. Travel expenses are usually reimbursed by the company, except for short, local auto travel. Common sense prevails when it comes to travel and out-of-pocket expenses.

Board member value

Invest the time in developing relationships with advisory board members. It is not unusual for advisory board members to not be compensated. Their reward is the satisfaction of sharing their knowledge and experience and helping a business succeed. As such, it is important to make them feel appreciated! Many will be well established and may perceive their board function as being a way of 'giving back'.

Meanwhile, if a prospective board member is going to be compensated, determine how uniquely valuable he or she is. What is the value that they bring to the business? This helps to create context for the basis of establishing compensation packages. If one director chooses, for his or her reasons, not to be compensated while others are compensated, an option is for ownership to donate an equal amount to a charity.

Board Evaluation

Evaluation is mandatory. Performance should ideally be a 360 degree process. Farm and board evaluate each other's performance. It is important to ensure that a yearly performance assessment of how the board is working takes place.

A formal evaluation process should be developed and used. Ownership and management should distribute an evaluation questionnaire in advance of any meeting. This gives both parties time to complete the assessment and review the other party's comments. An option is to conduct the evaluation 'off-site'. This can significantly add to the cost of the evaluation process and overall advisory board function. But there can be good value in using a location where there are no distractions.

Common Challenges and Pitfalls

There are several common pitfalls that advisory boards can encounter. Listed below are some of the challenges:

- Having too many cronies and yes-people on the board.
- Too little diversity of opinion on the board, constraining innovation.
- Too much diversity of opinion on the board, slowing decision making.
- Advisors are there to promote themselves, not the business.
- Advisors don't take the assignment seriously and give enough thought or effort.
- Advisors don't have the right experience and expertise.
- Running a small or medium-sized company is not same as running a large company, and therefore requires unique processes.
- Persons with large company background may not be able to relate to a farm business.
- Not paying attention to and nurturing your relationship with the advisors.

There is some correlation between having too much or too little diversity on the board and too many or too few directors. An advisory board function is to challenge ownership and management in their decision-making and management processes. An advisory board works to hold ownership and management accountable for actions taken. As such, an advisory board cannot be a collection of yes-people or cronies and friends.

The biggest pitfall lies with ownership and management. An advisory board only provides advice. A board does not 'write the plan'. For an advisory board to function optimally, farm ownership and management needs to have some basic structures in place.

To be able to use an advisory board effectively a farm needs to have the following developed and in place:

- Goals and objectives (both business and personal).
- Vision and a long term strategy.
- Good financial information including financial targets and capital investment plans or budgets.
- Organizational structure (management).

Long Term Sustainability

It is important to have a framework for transitioning out board members. As entrepreneurs, usually with growth aspirations, a business will evolve and likely need advisors that bring different skills to the table at different phases of growth. Advisory board members often do not have the time to serve on a specific board for more than two or three years. Time is a factor for them. Their lives will evolve as well and there is the potential for them to become complacent or 'tired'. The result can be a loss of enthusiasm which is closely followed by less effectiveness.

Others may not be as helpful as first hoped for when they were appointed in the selection process. So, make it clear up front that they serve as needed and spell out term limits. Ownership and management can terminate or replace an advisor, or even the entire advisory board for that matter. Some farms will use an advisory board for a period of time and then maybe dissolve the board and take a 'break' from it. It can be started up again in the future.

This flexibility is one of the main advantages of an advisory board. With no fiduciary responsibility or governance accountability to the advisory board, farms can start and stop them as needed. Owners and managers need to be mindful, though, of not getting the reputation of being uncommitted or wishy-washy. There aren't that many top notch director candidates and as they say, it's a small world. Word can get around.

Why an Advisory Board Might Fail

Farm advisory boards are optional, thus there is a significant chance that they will fail. Not being successful can be the result of numerous things. Note that this discussion is about a 'failure' as opposed to a decision not to continue with an advisory board structure. A decision not to continue will likely be a mutual discussion while a failure may see either the owner (farm family) or the directors wanting to continue but not being able to.

If there is uncertainty about the purpose, it will be difficult to get to the focus required for an effective board. It will lead to frustration and then ultimately, failure. Board members will fairly quickly form opinions about the level of interest, commitment and application by the owner(s). This will in turn impact on their performance and their willingness to continue to function as directors. Frankly, if a farm wants to have an advisory board, they must make the commitment required for it to be effective. A 'lip service' approach will spell doom for the board. A perception among the directors that the farmer is 'not interested or committed' is as problematic as it being a reality.

Similarly, if board members are not effective or prove difficult to work with … or fail to get to the required level of understanding about the farm business and/or family … the structure will fail. This failure will be because the farmer will not be getting a good return on the investment being made.

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