



Exploring Governance Structures for Your Farm Organization

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Introduction

What is the governance structure of your farm? Do you have your operation's governance structure clearly outlined for yourself – and – those involved in the management of your business? What comes to many producers' minds when they hear the word "structure" is their legal, or tax, structure. Much effort is spent emphasizing the importance of the farm's legal structure, including discussions around tax implications of various business structures and the impact on ease of transitioning the farm to future generations. But, what is often forgotten how critical the farm governance structure, including a clear articulation of who is responsible for what aspects of the business and how reporting takes place, can be for the efficient and effective operation of the farm business.

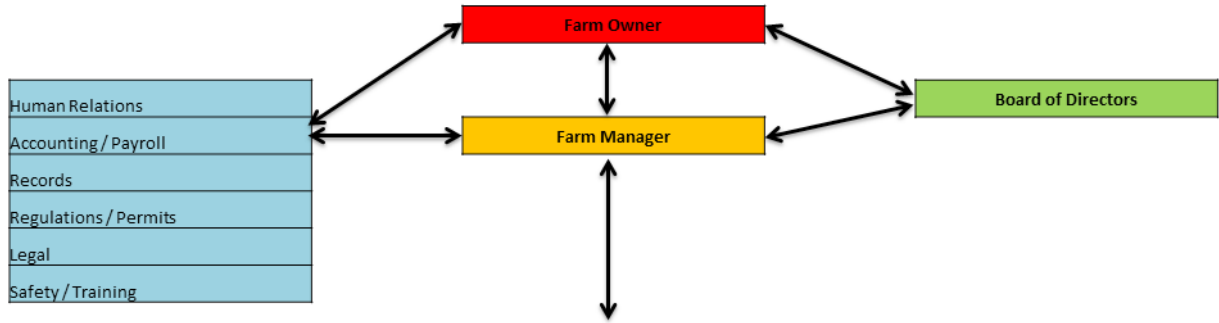
A Governance Structure

A farm's governance structure should be a very detailed and highly dynamic blueprint to the operations of your farm business. As the farm's legal structure outlines how the assets and profits are shared among the farms owners, a governance structure outlines the activities and responsibly of every member of the farm.

In its simplest form, a governance structure may be a farm's organizational chart. This chart might outline job responsibilities and reporting structure. However, a true governance structure takes on a more complicated form when it adds those members of the farm who aren't a part of the day-to-day operations and outlines their roles and responsibilities as well. As each operation is different, so should the governance structure; this is not something you can download and use. Unfortunately, there is not a list of options that the IRS has given you to pick from, like exist for legal structures. Like the blueprints to a building, the governance structure should be established and designed for each operation. As the operation changes over time, so should the governance structure. You wouldn't add a new wing to a building without updating the blueprints, would you?

See Table 1 below.

Swine Organizational Chart - Governance



Crop Supervisor	Equipment Supervisor	Maintenance Supervisor	Livestock Supervisor	Nutrition Supervisor	Health Supervisor	Marketing Supervisor	Security Supervisor
Fields	Tractors	Barns	Breeding	Rations	Disease	Buying	Biosecurity
Tillage	Trucks	Grounds	Gestation	Feeds	Prevention	Selling	Watchmen
Harvest	Field Equip.	Facilities	Farrowing	Feeding	Genetics	Transport	Guards
Hauling	Cars	Equipment	Growing	Additives	Wash in	Ordering	Records
Storage	Trailers	Irrigation	Market Hogs	Antibiotics	Wash out	Contracts	
Rotations	Wells	Roads	Boar	Feed Mill	Sewage	Advertising	
Planting	Records	Signs	Sow	Records	Worker Safe	Promotion	
Health		Records	Processing		Death	Records	
Irrigation			Records		Records		
Fertilization							
Records							

Table 1: Swine Organizational Chart - Governance

Efficiency and Effectiveness in Your Current Operations

Who decides who will clean the barns this afternoon? Who decides when the rations are switched? Who decides what mill or nutritionist the farm uses? Who decides if the farm will buy the operation on the other side of the county? These are all decisions your operation may one day face. At some point, all these decision might have been made by the same person, "Dad." But as an operation grows and become more complex, the list of people who makes the decisions will become increasingly difficult to sort out if some kind of structure is not in place.

For an operation to successfully grow, the roles and responsibilities of everyone involved need to be outlined and understood by everyone, much like a Swine Employee Handbook has to offer. Maybe your son makes the decision on which corn hybrids will be planted this year, but you, as the general manager, must approve all expenditures over \$15,000. Or maybe as the general manager you decide a new manure spreader is needed, but you need approval of the farm's board of directors- your father, mother, wife, yourself, son, and off-farm daughter- for major capital purchases.

A governance structure helps the current operations in three ways. First, it empowers. Whether it's the employee hired last week or the retired father, the governance structure is a way every person on the farm knows how the farm is counting on them. When everyone knows what corners of the operations they are responsible for and in charge of, they can focus on how to make that place a more successful one.

Secondly, a governance structure will make everyone's life easier. Without a governance structure, the farm's general manager might become overwhelmed with decisions. If the employees don't know what they are able to decide on their own, they will have to get approval from someone. Secondly, how would others do business with you? If someone called to meet about corn hybrids, do you and those you work with know who will make that decision?

Finally, a governance structure will reduce surprises. Surprise can come in many forms, but outlining a structure and sticking to it is critical to keep all the member of the farm on the same page. Imagine if you, as the general manager, bought a new corn planter. Your son, who plants corn, might be surprised to find a planter in the shed that is not what he would have wanted to buy and your parents, the largest owners of the farm, might be surprised that you spend all of this year's profit when they were hoping for a big dividend.

Managing your Operations Performance

Establishing a governance structure for your operation can also create value in managing the performance expectations and goals for your farm. This can happen at both the individual and business level.

With a governance structure in place, the reporting structure is clearly identified. The reporting and evaluation structure is important for employees to understand. To increase employee satisfaction and help with their growth and develop, employee evaluations are often critical. Evaluating employee performance is much easier once a clear structure is in place.

Additionally, when the ownership of the company sets goals for the farm, the governance structure creates an opportunity for clear objectives to be set so that each area of your farm knows what they contribute to the overall operation. Understanding this feedback loop – how a farm goal and its objectives can be managed and influenced by each person on the farm – it critical to the overall success of the goal and the operation.

Future Generation

The benefits of a governance structure go beyond the current operation. When thinking about the future of the operation, a governance structure could also serve to advise a succession plan. When talking about different generation's roles in the farm, different governance plans could be drawn up and agreed upon as a step-by-step plan moving forward. For example, 5 years from now the current general manager may agree to step-aside to a different role allowing the next generation to become the general manager.

An example organizational or governance chart is provided to assist in visioning what your structure might look like. You are encouraged to adjust this organizational or governance chart to fit your own operation.

Questions – Governance Structure

- What is the governance structure of your farm?
- What three ways can a governance structure helps the current operation?
- With are the benefits of having a governance structure in place?
- How can a sound governance structure benefit the future generation?

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