



Building capability on Māori owned farms in Northland

CONSULTANCY GUIDELINES



Summary Publications:

The following publications, summarising this report, are available from Enterprise Northland, phone 09 438 5110 or www.enterprisenorthland.co.nz

- Starting a Development Programme – Key Points
- Working With Consultants
- Consultancy with Maori Organisations – Feedback from Consultants

Acknowledgements:

This report has been funded by the MAF Sustainable Farming Fund and Te Puni Kokiri and facilitated by Enterprise Northland. Thanks to the consultants, rural professionals, scientists, trustees and chairs who generously offered their comments and feedback.

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Contents

Acknowledgements:.....	Error! Bookmark not defined.
1. Before You Get Started:	4
What Can Help to Makes Maori Organisations Successful?	5
What Are Common Mistakes?	5
Background for this document:	6
Background on pastoral farming in Northland:.....	7
Maori Farm Performance in Northland:.....	8
2. Using Consultants & Advisors.....	11
What is the Role of Consultants/Advisors:.....	11
Which role is the best?.....	11
What should you expect from your consultant?	12
Tools and Technology:.....	13
How can you evaluate your consultant?	13
Choosing a Consultant:.....	14
What does a Consultant Charge?	15
Checklist: What do you want from your Consultant?	16
Questions to Yourself – What Are You Looking For?	17
Questions to Ask Prospective Consultants:	17
3. What Makes Development Programs Successful?	18
Strong Governance and Leadership:.....	18
Agreed Vision or Business Plan:.....	18
Assessing Progress:	20
Governance versus Management:.....	21
General Business Acumen:	21
4. Access to Lending:	25
What Makes a Good Track Record?.....	25
What Are Banks Looking For?	26
5. References:	28
6. Case Study:	29

1. Before You Get Started:

Successful Maori organisations and farm advisors agree that some important things need to be in place before you start a development program. You should be able to answer yes to all these items before you start down a development pathway.

	Yes	No	More Information
Do you have strong governance and leadership?			Page 18
Do you have an agreed vision and business plan?			Page 19
Do you understand the difference between governance and management?			Page 21
Does your team understand their roles and responsibilities?			Page 21
Do you have a committed team of trustees and professionals?			
Have you accessed independent advice?			Page 11
Do you understand the potential risks and rewards?			Page 21
Have you discussed development with your banker?			Page 25
Do you have a budget for the development?			
Are your staff enthusiastic about doing this?			
Have you agreed how you will measure the success of the program?			Page 20

What Can Help to Make Maori Organisations Successful?

Good Leadership & Direction

Leadership is critical. Governance teams set direction for the organisation and check results are achieved. A strong chair for the organisation will lead strategic planning and manage relationships, using a common sense approach and encouraging debate and discussion. Setting the direction of an organisation makes planning and measuring progress easier. People understand their roles and responsibilities and are all working for the same outcome.

Governance is sorted – showing true leadership

Governance should be driving the organisation, setting objectives and monitoring progress. Using clearly defined objectives and agreeing to actions in a business plan will provide the management team with direction and set the standards for governance to assess progress.

Having a committed team of rural professionals

Use a team of rural professionals to support the farm management team will bring more skills and expertise to the organisation and ensure professionals understand their role. Being involved in a management team will improve communication within the team and reinforce key objectives.

Having confidence in their business actions

Governance teams need to have confidence they are making the correct decisions. Governance teams are accountable to shareholders, all their decisions should be in the best interests of the organisation and their shareholders.

What Are Common Mistakes?

Not understanding the roles of Governance versus Management

Blurring the boundary between governance and management leads to disharmony within the team. Roles are not clearly understood and governance cannot demand accountability. Setting boundaries between governance and management is a hallmark of successful organisations.

Not having a strategic plan or not following it

A good strategic plan will clearly outline roles, responsibilities, performance and timeframes. Not having a strategic plan or not following a plan makes communication more difficult and leads to bad decision making.

Not managing risk

Risk of failure is higher for Maori organisations. It is important governance understand what the risks are and develop plans to monitor and manage situations where there is high risk. These plans need to be clearly communicated in the business plan.

Growing debt too quickly

Maori organisations generally can't realise capital gain on their land and often have high cost structures, meaning they can be more exposed to debt servicing if interest rates rise or returns fall. Repaying debt is often a high priority for successful Maori organisations.

Background for this document:

We know that Maori farms in Northland tend to be less productive and less profitable than comparable Northland farms. We also know that Maori owned farms in Northland have potential to make big productivity gains by applying existing knowledge on their farms. So what is holding these farms back?

Past research projects have indicated that Maori farms in multiple ownership do face additional challenges compared with single entity farms, including:

- Variation in governance skills and ability
- Extended decision making process
- Limitations accessing development capital
- General aversion to risk

In addition multiply owned Maori farms in Northland tend to:

- Be smaller than farms in other regions
- Have limited access to independent advice
- Have some regionally specific soil and pasture production issues

In many cases the first step in a farm development program is to get independent advice to assist with planning and implementation. This document aims to help Maori farmers make better use of independent advice and understand the important steps in building farm capability.

The focus of this document is Maori organisations* in Northland, however there may be relevance to single entity farms or organisations outside of Northland.

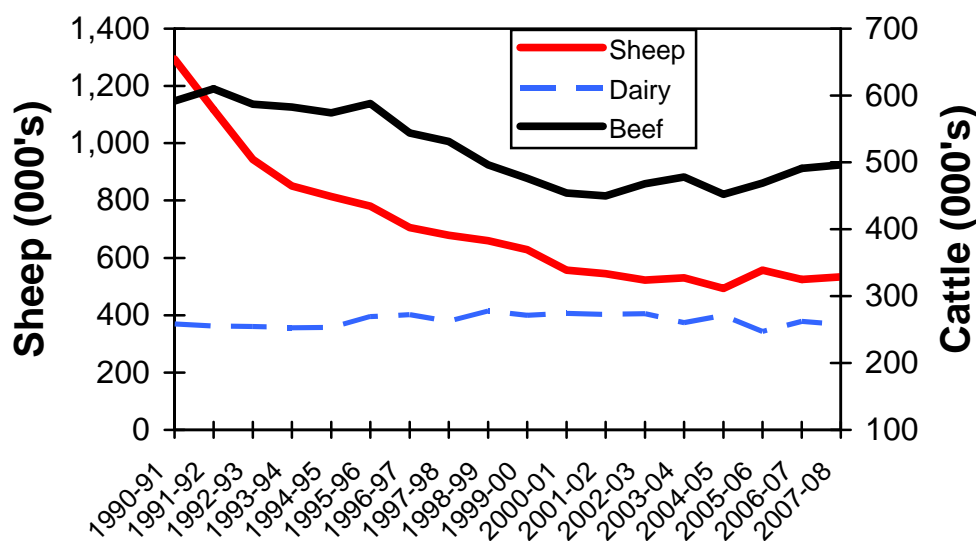
[Back to the Checklist](#)

* In this document the term 'Maori organisations' refers to trusts and incorporations with land under the Te Ture Whenua Maori Act 1993/Maori Land Act 1993 and with a board of trustees responsible for governance.

Background on pastoral farming in Northland:

Pastoral farming (grass farming associated with dairy, sheep or beef industries) is the largest sector in Northland, estimated to contribute around \$1.3 billion dollars to the Northland economy. In the past 18 years there has been a dramatic shift in land-use as 24% of the pastoral land has been converted into alternative land use, mostly forestry. This has seen a reduction in sheep and cattle numbers as outlined in the graph below:

Figure 1: Changes in Stock Numbers in Northland 1990 - 2007



This changing land-use has forced farmers to become more productive and profitable, often through the application of new tools and technology. As a result of applying these tools, inflation adjusted farm revenue has increased by more than 30%, in spite of losing a quarter of the pastoral area (see table below).

Table 1: Changes in the Northland Pastoral Industry from 1990 - 2007

	Change in Numbers	1990-91 \$m	2007-08 \$m	% change
Sheep	-59%	38	25	-35%
Beef	-16%	248	220	-11%
Dairy	0%	157	600	282%
Deer	-	1	0.8	-43%
Region Total	-	444	845	+34%

*constant 2007 dollars, sourced from Meat & Wool New Zealand¹

Maori Farm Performance in Northland:

Farms under Maori ownership have been more insulated from these changes, applying new technology selectively and continuing with relatively conservative stock policies. A comparison of the performance of Maori owned farms relative to non-Maori owned farms was undertaken in Northland in 2002, the comparison showed some concerning trends:

Table 2 Financial performance of large scale Maori owned sheep & beef farms compared with European owned sheep & beef farms (2000/2001)²

	Maori Owned	Non-Maori Owned	Northland Model
Production (kg product/ha)	146	243	203
Gross Farm Income (\$/ha)	521	766	746
Farm Cash Expenses (\$/ha)	345	382	352
Expenses as % of GFI	66%	50%	47%
Effective Farm Surplus (\$/ha)	141	394	199
Effective Farm Surplus (\$/SU)	15.7	40.9	18.09

Factors contributing to this poor performance include:

- Conservative stock policy contributing to low productivity
- Lower productivity contributes to a lower gross farm income
- Farm expenses are similar across the sector groups
- Expenses are a much higher percentage of farm revenue
- Effective Farm Surplus (EFS) is a measure of profit, which is significantly lower on the Maori owned farms

There are 133,009 hectares of Maori owned land in Northland, representing around 11% of Northland's total land area. As outlined in the table below, approximately 30% of this land is in developed pasture, 20% in exotic forestry, 20% in scrub or poor quality pasture with the remainder either undeveloped or Nga Whenua Rahui title.

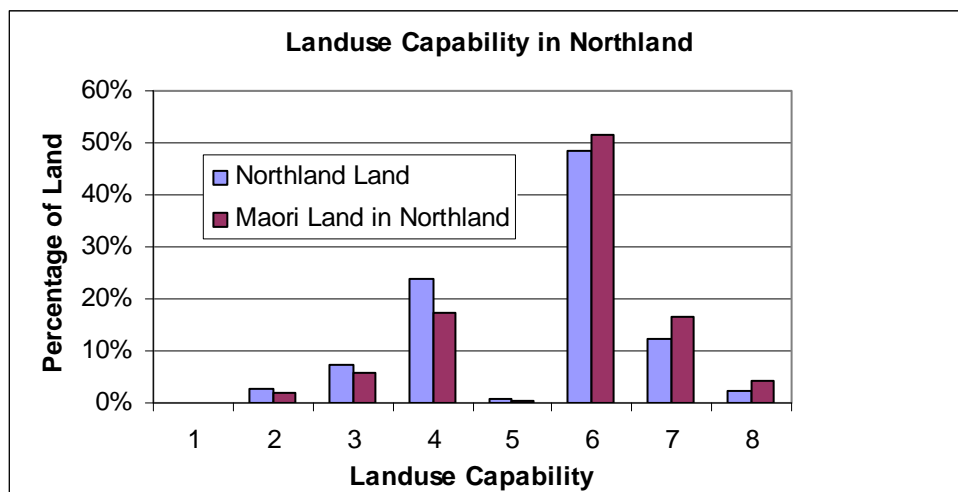
Table 3: Maori owned land area in Northland⁴

	Total Area	Developed	Exotic Forest	Scrub/poor pasture	Undeveloped
Far North	73496	24992	18327	10528	19649
Rest of Northland	59513	16489	8017	15930	19077
Total	133009	41481	26344	26458	38726

Maori owned land in developed pasture represents around 8% of the total developed pastoral land in Northland.

Maori owned land in Northland is generally representative of the type of land in the region. The graph below uses GIS data and Landcare Research Information comparing the Land Use Capability (LUC) of Maori owned land with the land use capability of Northland land generally. On the LUC scale, class 1 land is the most productive and class 8 is the least productive.

Figure 2: Land Use Capability of All Northland Land Compared with Maori Owned Northland Land⁵



A limitation of Maori owned land in Northland is the relatively small size of the blocks. The table below shows the location and size of Maori Owned farms in Northland. Most of the blocks are located in the Far North and are less than 50 hectares.

Table 4: Maori owned farms in Northland²

Size of Farm (ha)	Far North		Whangarei		Kaipara		Rodney		Northland Total	
	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased	Owned	Leased
10 – 50	403	70	28	9	11	6	3	1	445	86
50-100	115	19	13	1	4	4	3	1	135	25
100-250	76	10	6	0	4	2	2	2	88	14
250-400	8	2	2	0	0	0	0	0	10	2
400+	14	5	2	1	3	3	1	0	20	9
Total	616	106	51	11	22	15	9	4	698	136

A study of consultants involved with Maori farms³ indicated some key differences between Maori organisations and the more common owner-operator models.

- ∞ Restrictions of the land tenure system associated with multiple ownership and the “committee system” under trust and incorporation structures was a major impediment to the performance of the farm business
- ∞ This constraint can be overcome by developing systems where the decision making is improved:
 - Fewer numbers of key decision-makers on the committees
 - Enhanced expertise of board members in their governance roles
- ∞ The capability and expertise of the governing boards was the most significant factor impeding the performance of multiple-owned Maori businesses
- ∞ Information sought by Maori farmers was essentially the same as other clients, but information delivery must be appropriate for a committee where individual skills can vary
- ∞ Independent advice as to how well management is performing is considered a key role of a farm management consultant
- ∞ Successful consultants developed expertise in improving capabilities of committees to carry out their governance responsibilities, acting as an educator and mentor of the board
- ∞ In addition to the traditional skills necessary for a consultant, an understanding of cultural protocols, tribal dynamics and Maori values in relation to farming and the environment are also required.

[Back to the Checklist](#)

2. Using Consultants & Advisors

What is the Role of Consultants/Advisors:

The term 'farm consultant' in this document refers to a person paid to give advice to Maori organisations. This is often a farm management consultant, but may also include successful farmers, accountants or other business advisors. In general, farm management consultants working with Maori farming organisations tend to operate in two ways:

- Advisors
- Supervisors

Advisors

Advisors tend to work with trustees to provide independent advice and guidance, especially in technical areas. Activities advisors might undertake include:

1. Strategic planning
2. Staff recruitment
3. Monitoring and reporting finances
4. Technical issues (e.g. feed budgeting, fertiliser, cropping, etc)

Advisors tend to visit the farm regularly (often every month) and tend to work with trustees and farm managers.

Supervisors

Supervisors are more involved with the farm, and are generally involved in day-to-day decision making on behalf of the trustees. Supervisors are often charged with carrying out the strategic plan developed by the governance board, and are accountable to trustees.

Supervisors tend to visit the farm more regularly (once or twice a week) and are much more involved with day-to-day operations.

Which role is the best?

This is going to be a decision each organisation needs to make based on their circumstances. Farm supervision releases the trustees from making day-to-day decisions, leaving them free to focus on strategic direction. However, supervision can be expensive and the relatively small scale of many Northland Maori organisations means they may struggle to support this level of consultancy. In general, Maori organisations in Northland will choose some form of advisory service, with visits and reporting decided according to the level of input required by the governance team.

What should you expect from your consultant?

Like Maori organisations, no two consultants are the same. It's important that Maori organisations make their expectations clear to the consultant. These expectations can be written down and may form an agreement between the organisation and the consultant.

In general Maori organisations require more assistance with planning and monitoring than single entity farms. Reporting physical and financial performance is generally a key role of consultants as well as helping trustees interpret information.

Some common responsibilities of consultants include:

- Preparing annual budgets for the organisation
- Reporting actual results against expected results
- Benchmarking performance against other farms
- Overseeing the appointment of staff or sharemilkers
- Bringing independence into decision making
- Evaluating options to improve farm performance
- Assisting organisations to develop vision and business plan
- Providing continuity of information when managers and trustees change
- Working with managers to improve profit
- Facilitating linkages between governance and managers

Other roles consultants may deliver include:

- Developing formal procedures and operations manuals for employees and ensuring the organisations complies with regulations
- Providing extra information on performance of different enterprises
- Helping to separate governance from management
- Helping to accelerate decision making
- Providing administration support (minutes, etc)
- Building and facilitating a farm management team
- Acting as a technical resource for farm managers and trustees
- Challenging the trustees to seek better levels of performance
- Focusing governance on the business

Tools and Technology:

Consultants use a range of technologies and tools in their business. There are some standard tools, such as accounting or feed budgeting computer programs, and more advanced tools to track farm performance such as Farmax. The more advanced tools help monitor production through the year and forecast likely performance for the year.

Most consultants will have monthly reports which farm managers use to document stock transactions (sales, purchases and deaths) and keep up-to-date with emerging issues.

You should ask your consultant which tools they would plan to use and the reasons for using those tools.

How can you evaluate your consultant?

Evaluating a consultant's performance is much easier when organisations have a clear idea of what they expect their consultant to deliver. Having these expectations written down and agreed to by the consultant and the trustees, then reviewing whether they were achieved should be a simple process.

Most strategic plans will have annual targets for the farm to achieve, often in the form of physical production and financial indicators (such as milk production per hectare, or kg meat and fibre per hectare). Reporting actual performance against the targets makes evaluating the farm performance relatively easy, especially if you update performance through the year.

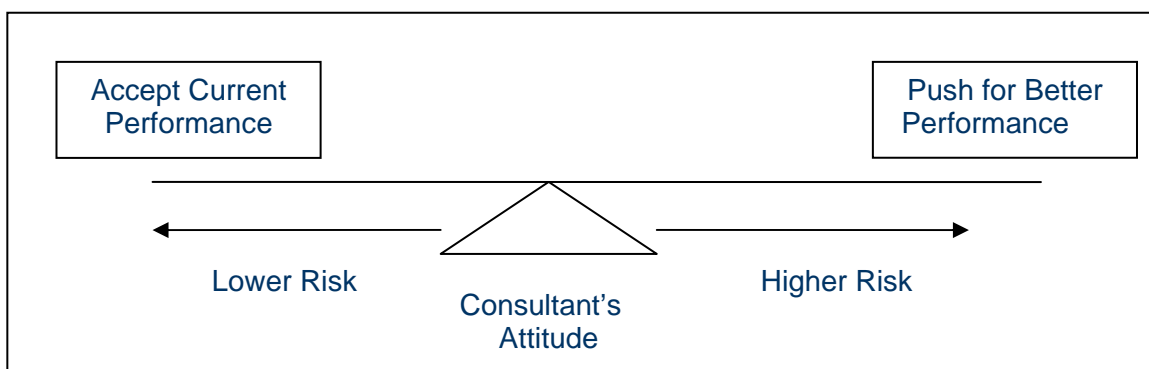
Benchmarking your farm against other farms in the region is another key tool to help you evaluate your consultant. The weather will impact on farm production, and in Northland it means farms can produce much less than expected due to wet winters or dry summers. Obviously you can't control the weather, and comparing the farm's performance against that of other farms in the region or district helps add perspective when you are looking at the performance of your consultant. Maori organisations need be aware that administration expenses tend to be high when benchmarking against single entity farms.

In some cases getting another consultant in to review the farm and make suggestions offers a fresh perspective. You might choose to get this review in conjunction with strategic reviews every two to three years. You should have defined terms of reference for the consultant you use for the review. Discuss this with your existing consultant and plan how you can both get best value from the review.

Choosing a Consultant:

Choosing a consultant is often a matter of personality; it's important to choose a person the trustees feel confident working with. There is a balance between accepting current performance and pushing to better farm performance. Often there is more risk when pushing for better performance, which needs to be balanced against the expectation of higher returns.

The diagram below shows the relationship between accepting lower risk, but also lower profitability policies and pushing for better performance, which will increase profit, but also bring higher risk. It's important trustees understand the consultant's attitude to risk and decide whether that suits the organisation and their vision.



Here is a practical example:

An organisation has the goal of being debt free within 10 years. They have the opportunity to implement a farm development programme which should increase profitability, allowing them to repay debt faster, but requires the organisation to increase debt in the short term to fund the development:

- Consultants focussed on growing the business may be frustrated if the organisation decided against borrowing to implement the development program.
- Consultants focussed on reducing risk may be uncomfortable if the organisation chose to implement the development program

Some of the characteristics people look for in consultants include:

- Experience and reputation
- Good technical understanding
- Honesty and integrity
- Independence from local politics
- Good communication skills
- Ability to listen
- Empathy with the land blocks
- Understanding of cultural issues

If you are choosing a consultant for an ongoing advisory role, consider getting the consultant to make a strategic review of the business first. Working with the consultant as they develop the strategic review will help you decide whether they are compatible with your business goals and vision.

In Northland we have relatively few professional farm management consultants working in the region.

Alternatives to farm management consultants include:

- Working with consultants from outside Northland
- Using respected farmers or industry professionals in an advisory capacity
- Better utilising existing support staff, such as accountants

Northland does have some unique challenges in soils, pastures and climate, which complicate farm management decisions. Consultants from outside Northland should be aware of these issues and the potential impact on farm production and profit.

There is no standard qualification for consultants or compulsory industry body with which people must be registered to operate as consultants. The New Zealand Institute of Primary Industry Management is a well respected organisation of which many farm management consultants are members. To be registered with the institute, consultants must meet requirements for qualification, ongoing training and professional development. Members of the institute often use the term CPAg in their qualifications.

What does a Consultant Charge?

There are differences in the amounts charged by farm consultants, generally the rate is between \$85 - \$120 per hour (plus GST), although some consultants will charge less for tasks associated with administration. The amount charged tends to vary with the consultant's level of experience, responsibilities and involvement with the farm.

This amount varies markedly with the level of input. On bigger farms (more than 10,000 SU) consultancy can be around 1 – 2% of gross farm revenue for advisory and 2 – 3% for supervision. On smaller farms the amount tends to be higher as a percentage of gross farm revenue.

[Back to the Checklist](#)

Checklist: What do you want from your Consultant?

Employing a consultant is often the first step in a farm development program. Clearly communicating what you need to your consultant will help everyone understand their roles. Use this checklist to help you decide what you want your consultant to do.

Financial:	Yes	No
Prepare annual budgets for the organisation		
Report actual results against expected results		
Benchmark performance against other farms		
Pay bills and raise invoices		
Manage payroll		
Assist in securing development capital (loans) and work with lenders		
Production:	Yes	No
Develop production goals		
Monitor and report production results		
Evaluate different enterprises on the farm		
Benchmark farm production		
Technical Advice:	Yes	No
Provide technical advice to managers and trustees		
Review farm policies		
Undertake feasibility studies for improving farm productivity		
Develop operations plans/procedures		
Staff:	Yes	No
Appoint and dismiss staff/sharemilkers		
Undertake annual reviews of staff performance		
Develop/review job descriptions and employment contracts		
Oversee staff induction and training		
Collect monthly reports from staff/sharemilkers		
Strategic Plans & Business Plans:	Yes	No
Assess the strategic plan		
Assist in the development of a strategic plan		
Evaluate the business plan		
Develop a business plan		
Challenge to governance to deliver more		
Facilitate the Management team of professionals		
Administration:	Yes	No
Present at governance meetings		
Circulate reports to governance prior to meetings		
Provide secretarial support with meetings		

Questions to Yourself – What Are You Looking For?

- Are you looking for someone to help grow your business?
- Do you want a consultant who will push your organisation to achieve higher financial performance?
- Are you looking for someone who will monitor performance and report administrative issues?
- Do you want a consultant who will help to reduce risk to your organisation?
- Do you want a consultant to lead a team of other rural professionals?
- Do you want a consultant who will oversee the management of the farms and deal with the daily challenges?
- Do you see the consultant acting as the main link between governance and farm manager/sharemilkers?
- Do you need help developing your vision and preparing your strategic plans?
- Do you need help to prepare business plans and set goals and targets?
- Do you want a consultant who will lead and direct the organisation?

Questions to Ask Prospective Consultants:

- Have you worked with other Maori Trusts/incorporations?
- How can you add value to our business?
- How do you see your role in our organisation?
- Do you understand what we are looking for in a consultant?
- Do you like to work within a team or people or prefer to work as an individual?
- Do you see yourself as primarily providing technical advice or acting to support the governance team?
- Do you have Professional Indemnity Insurance?
- Are you a member of the New Zealand Institute of Primary Industry Management?
- Will engaging you as a consultant lead to a conflict of interest?

[Back to the Checklist](#)

3. What Makes Development Programs Successful?

Strong Governance and Leadership

A key difference between single-entity farms and farms under multiple ownership is the committee system. Organisations with land under multiple ownership generally have a team of people elected or appointed as representatives of all the shareholders (trustees) which make up the governance team. This team is typically chaired by an individual person.

Most Maori organisations will also have a management team, often including a trustee, farm manager, consultant and other professionals (vets, accountants, etc). This management team has responsibility for implementing plans agreed to by the governance team. Governance has oversight and control of the management team, but the management team is responsible for the day-to-day running of the operation.

The governance team or board have responsibility for the land and associated assets. They are accountable to shareholders. Good governance is about leadership; ensuring the operation follows the vision of the organisation and management is aligned with the organisation's objectives.

Maori organisations often have responsibilities beyond financial performance and may have restrictions on their primary asset, the land. There are important cultural issues for governance boards to consider and the organisation's vision may have a long term approach (more than 25 years).

The leadership within the governance team (particularly that of the chair), is critical to overall performance of that organisation. The role of the chair is to lead strategic planning and manage relationships, while encouraging board members to engage in debate and decision making. Experts suggest chairs need to take a commonsense and inclusive view while maintaining a firm approach.

A great resource for organisations looking for more information on governance and leadership is the Te Puni Kokiri website (www.governance.tpk.govt.nz). The website provides more information on roles and responsibilities as well as case studies of successful Maori organisations. Another valuable tool is the E Tupu governance workshops.

[Back to the Checklist](#)

Agreed Vision or Business Plan: Failing to plan is planning to fail

Governance teams are generally elected which means new trustees come onto the board regularly. This brings new ideas and enthusiasm into the governance team, which can help the organisation move forward. However, bringing new people into the governance team can present challenges in communicating the role and strategic direction of the organisation. Having an agreed vision and associated business plan helps members of the governance team better understand the organisation and means the governance board can evaluate progress toward their vision.

Developing a clear vision of where the organisation wants to head is a key role of governance. Maori organisations need to consider more than just financial and production targets, there are important social, cultural and environmental effects to think about. Bringing social, cultural and environmental outcomes into the business plan helps to provide balance to a business strategy and ensures the organisation stays true to the vision. Including a range of goals in the business plan helps the organisation balance natural tension between capital growth, dividends and cultural aspects. It also helps communicate the direction of the organisation to shareholders and matches shareholder expectations with the governance strategy.

A business plan is all about strategies to achieve the vision. Business plans will map out the pathway and outline the actions which need to be implemented for the organisation to achieve their goals. Often a business plan includes technical details and financial budgets.

There are plenty of resources available for Maori organisations looking for advice on developing vision and strategic plans. Start with the Te Puni Kokiri website (www.tpk.govt.nz) or contact the Whangarei office on (09) 430 3731. Other resources can be found on the New Zealand Trade and Enterprise Site: www.business.govt.nz.

It's logical to get your consultant involved in developing your business plan; they can provide a framework and assist with technical issues.

[Back to the Checklist](#)

Assessing Progress

If you don't know where you're going how will you know when you've arrived?

Not having a business plan or choosing not to follow the plan is a common factor in the failure of farm development programs. Organisations without a strategic plan will often implement development plans without understanding how it will impact on their business. This can result in increased debt, without producing the intended benefits.

A primary role of the governance team is to ensure the organisation progresses toward the agreed vision. Having goals and targets helps ensure the organisation is moving forward and provides a measure of progress.

A strategic plan involves planning the steps required to achieve the outcomes. It helps people understand the financial, environmental and social implications of the development and timeframes for those implications. A strategic plan also allows you to monitor your progress and compare it against the plan. A core aspect of any business plan is setting goals and targets to be achieved within a certain timeframe

The goals in the business plan should be SMART:

- Specific
- Measurable
- Achievable
- Relevant
- Timebound

SMART goals make it easier to assess whether the performance is on target, set timeframes and focus on key issues. Refer to www.business.govt.nz for more information.

Benchmarking farm performance against that of other farms is an important tool for assessing your progress. Benchmarking highlights:

- Things you are doing well
- Areas which can be improved
- Realistic levels of performance in your region

You can benchmark against physical performance and/or financial performance. Maori organisations may consider benchmarking social or environmental measures to bring in cultural aspects of the organisation.

[Back to the Checklist](#)

Governance versus Management

Blurring the boundary between governance and management often leads to problems, especially in farm development programs.

Governance should provide leadership, set the direction and ensure the organisation is achieving goals.

The management team needs to implement plans that achieve these goals and is responsible for ensuring targets are achieved.

When governance crosses the line into management there is potential for conflict if goals are not achieved, creating problems with accountability and leading to concerns amongst shareholders.

It's important to agree the roles and responsibilities of governance and management. There needs to be clear identification of where responsibilities lie; who is the person responsible for different aspects of the farm business and how will that performance be measured? It is especially important to agree on the responsibilities of the management team and the responsibilities of the governance team.

Using independent professionals to help with staff recruitment and evaluate quotes will reduce potential for conflict of interest and help provide a buffer between governance and management. The employment of staff is an area where there needs to be independence. Many successful governance teams have a policy of employing the best person for the job, regardless of their affiliation with the organisation.

[Back to the Checklist](#)

General Business Acumen

Managing Risk

Every farm development activity has some level of risk. It's important for governance to understand the level of risk, and to decide whether the risk is acceptable. Accepting some risk is necessary if the farm is to move forward and continue to grow. A reason for some of the poor performance on Maori farms in Northland is very conservative stock policies, which have low risk, but also have poor profitability.

In most single entity operations in Northland the return has come largely from increasing land value, rather than a cash return. Maori land in Te Ture Whenua often does not realise capital gain, so it's more important for the land to generate a cash return.

Studies³ have shown that equity is much higher on Maori owned farms than on comparative single entity farms, reflecting a lower appetite for risk and potentially more difficulty leveraging that equity to borrow. Many financial institutions are reluctant to use land under the Te Ture Whenua Act as security, which restricts the potential borrowing power of Maori organisations. While this can slow down development plans, it also helps prevent Maori organisations accumulating unsustainable debt levels.

See Page 25 for more information.

Learning How to Evaluate Risk

For most Maori organisations it can be difficult to find a balance between accepting too much risk and accepting low levels of performance. Some methods of evaluating risk include:

- **Benchmarking performance**

As discussed earlier, benchmarking your farm against other farms in your region helps you identify realistic production levels and identify whether you are already doing well, or whether there is room for more growth

- **Discuss Risk with the Management Team**

Discuss targets with your management team; they are the ones who have to achieve them. Bring in your team of rural professionals; ask whether they think the targets are realistic. Rural professionals see a range of different farms and might point out things you had not thought of.

- **Sensitivity Tables**

Tools such as sensitivity tables can be used to highlight the risk in a range of different scenarios. The governance team can use these tables to help evaluate whether the risk is acceptable.

How do sensitivity tables work?

When deciding whether to implement a technology we often use current prices to determine whether the technology is cost effective. We should also be asking, if the return was lower, or if we didn't get as good a response, would the technology still be cost effective?

An example: (Warning - jargon alert!)

You might be told that if we were looking at nitrogen we might calculate that at a 10:1 nitrogen response (KgDM per Kg N applied) and at a \$7 payout, nitrogen is cost effective. The table below is an example of a sensitivity analysis to determine whether nitrogen fertiliser is profitable under a range of responses and milk prices.

Table 5: Return from nitrogen fertiliser (cents/kgN) at different response rates and milk prices (assuming a response of 80g/kgMS and nitrogen at \$2.85/kg N applied)

<i>N Response</i>	<i>Milk Price (\$/kgMS)</i>			
	<i>\$4</i>	<i>\$5</i>	<i>\$6</i>	<i>\$7</i>
<i>5:1</i>	<i>-25</i>	<i>-17</i>	<i>-9</i>	<i>-1</i>
<i>8:1</i>	<i>-4</i>	<i>4</i>	<i>12</i>	<i>20</i>
<i>10:1</i>	<i>4</i>	<i>12</i>	<i>20</i>	<i>28</i>
<i>12:1</i>	<i>8</i>	<i>16</i>	<i>24</i>	<i>32</i>
<i>15:1</i>	<i>13</i>	<i>21</i>	<i>29</i>	<i>37</i>

This table indicates that providing the nitrogen response is above 8:1, there is little risk of losing money on nitrogen fertiliser, even if the milk price drops to \$4/kgMS.

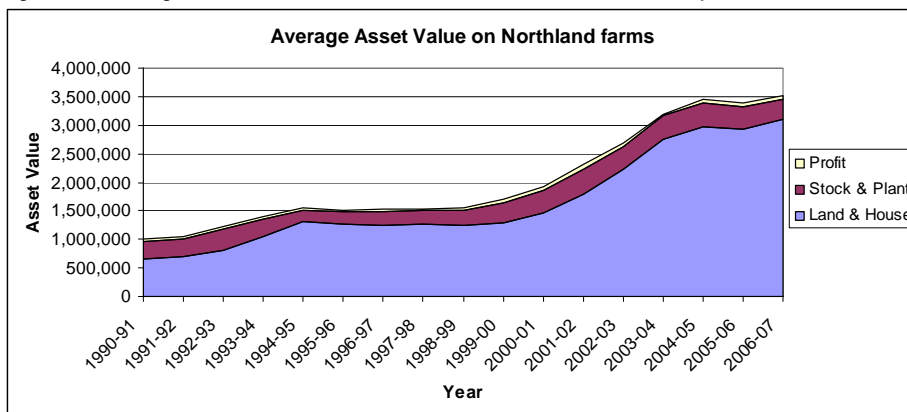
[Back to the Checklist](#)

- **Not Growing Too Quickly**

Rapid growth can be a threat to Maori organisations farms if it exposes farms to high levels of debt. Debt can become an issue for Maori organisations because the capital gain seen on single entity farms may not apply to Maori land.

For example, in Northland from 2000 to 2005 the average land value of sheep and beef farms almost doubled (capital gain). In periods of poor returns some farmers will chose to run their business at a loss, and simply add the loss to their debt. When they sell the farm the capital gain more than wipes out the debt. Figure 4 shows how much of the asset growth (and wealth) on Northland farms has come from increasing land value (blue) which does not apply for Te Ture Whenua land.

Figure 4: Change in Asset value and Profit from Northland Sheep & Beef farm 1990 – 2007¹



For Maori organisations the land cannot be sold, which means there is no way of generating capital gain from the land. In contrast to owner-operators, if the Maori organisations ran at a loss for a number of years, the debt would build up and may make the farm uneconomic.

[Back to the Checklist](#)

- **Awareness of a Higher Cost Structure**

Maori farms have an inherently higher cost structure than owner-operator farms. Much of this higher cost comes from the costs associated with running the governance team and providing higher level reporting. These administration costs provide a valuable and necessary purpose, but the higher costs need to be considered when completing financial budgets.

[Back to the Checklist](#)

- **Avoiding Charlatans**

The governance team for Maori organisations tend to have a diverse range of backgrounds and skills with Maori organisations. Often there can be little knowledge of farming practices at the governance level.

Unfortunately, as with any industry, the farming industry has some characters that may be selling products or services which are not appropriate for the farm. It can be difficult for governance to decide which products represent value for money and will deliver the best possible outcomes. Having access to unbiased, independent advice from a consultant will reduce the chances of making a poor decision.

[Back to the Checklist](#)

▪ **Developing Business Skills**

The election of new trustees onto the board brings new skills and expertise, but often means trustees will have variation in business skills. Trustees do not need to be experts on farming, but they do need to have an awareness of general business principles and be prepared to learn how to interpret important business information.

Trustees of trusts and incorporations managed under Te Ture Whenua Maori Act 1993 are eligible for Maori trustee training. These courses are paid for by New Zealand Trade and Enterprise (NZTE). There are more details on the NZTE website (<http://www.nzte.govt.nz/section/13291.aspx>) in the business development/enterprise training section. These courses are delivered in Northland by BIZNorth who can be contacted on (09) 438 1394 or visit www.biznorth.co.nz.

[*Back to the Checklist*](#)

4. Access to Lending

A key difference between Maori organisations and typical owner operators is the ability to borrow against land. Many of the land assets held by Maori organisations in Northland are subject to Te Ture Whenua Maori Act 1993, which protects land from being sold. A consequence of this act means most financial lenders will not lend against the value of the land, i.e. organisations cannot use their land as security. This reduces the ability of organisations to borrow money for development, but it also reduces the risk of organisations forfeiting their land if they default on the loan.

In most cases, Maori organisations looking to access funds for development will need to use security in the value of their livestock. Lenders will generally lend a certain amount of an animal's value; if the organisation defaults on the loan, the bank will have the opportunity to take the stock and sell them to recover the debt.

Lenders will generally only lend up to 50% of an animal's 'market value', which is estimated annually. Lenders may be prepared to stretch this percentage of criteria for clients with a good track record and a good relationship with their bank.

What Makes a Good Track Record?

So what makes a good track record? Some important factors include:

- A good history with the bank – not exceeding overdraft limits
- Good communication with the bank – discussing options before taking action
- Having potential to increase production and deliver on goals

Maori organisations with a good track record will often find it easier to access development funding, even where their existing performance may be modest.

While difficulty with security is a limitation for some Maori organisations, another limitation will often be poor cash flow. Conservative stock policies or run-down properties may be generating profits which cannot support more debt. In these cases lenders will often look beyond the existing cash flow and consider the likely cash flow once development has been completed. This is a key area where Maori organisations can make a difference. Lenders generally like to see a growth strategy and appreciate that organisations with clear plans following a logical pathway are more likely to achieve their objectives.

What Are Banks Looking For?

So how can you increase your chances of accessing finance for development?

- Have a clear growth strategy showing where you plan to take the organisation:
 - Where is the organisation now?
 - Where does the organisation want to go?
 - What is your plan to get there?
- Have agreement from governance, shareholders and staff about taking on extra debt
 - Communicate with shareholders and staff about the risks and rewards of any development
 - Get agreement from other stakeholders for their vision for the future
 - It's essential that all members of the governance team want this to succeed
- Develop some financial projections
 - Clearly convey the benefits of the development to the banker
 - Forecast livestock performance and cash flow budgets
- Make sure all levels of the organisation have bought into the plan:
 - Shareholders are comfortable taking on more debt
 - Governance have a good understanding of the risks
 - Managers/share-milkers are enthusiastic about implementing the plan

Purchasing some freehold land can make it easier for Trusts to access finance for farm development by using the freehold land as security. Part of the long term strategy may include purchasing freehold land to add to existing operations. Lenders tend to be more comfortable using freehold land as security, which means it can be easier for Maori organisations to access additional finance, which can then be used to develop land subject to Te Ture Whenua Act. Freehold land is also a source of capital gain.

In general Maori organisations looking to access finance for development should be focussed on repaying that debt faster than single entity farms with freehold title. Maori organisations generally do not have the option of realising capital gain by selling land, so debt repayment should be a high priority.

We are fortunate in Northland to have a great team of people in the rural banking industry. Rural bank managers often have a large amount of knowledge and can be a valuable source of information for Maori organisations and should become a key part of the management team.

[Back to the Checklist](#)

5. References:

¹ *Meat & Wool New Zealand Economic service*

² *G Ussher, 2002. A study into the Physical and Financial Production Status of Maori-owned Farm and Horticultural Businesses within Northland and comparing them to European-owned businesses. MAF report*

³ *Tanira Kingi, et al, 2001. Consultancy Services to Maori Farmers: A survey of Farm Consultants in New Zealand. MAF report*

⁴ *M. Corrigan, H Toia, November 2002, Encouraging Maori Economic Development in Taitokerau – Report to Northland Community Trust*

⁵ *Landcare Research GIS data provided to Te Puni Kokiri*

⁶ *Maori farmer of the Year Award – the Ahuwhenua Trophy, 2005 Regional Field-days Handout, Meat & Wool New Zealand*

⁷ *Te Puni Kokiri governance website – www.governance.tpk.govt.nz*

6. Case Study

Wairarapa Moana Incorporation – Development of the Sheep & Beef Unit (Te Pouakani Farms)

Information taken from the Maori Farmer of the Year 2005 regional field-days handout⁶ and the Te Puni Kokiri Website⁷ (www.governance.tpk.govt.nz/share/wairarapa.aspx).

Background on the Incorporation

Wairarapa Moana Incorporation is a successful farming and forestry venture. It has larger scale than most Northland farms, but the process they used in the development of the Sheep and Beef Unit (SBU) is applicable to Maori Organisations in Northland.

The incorporation has over 3,000 owners; descendants of the original owners of Lake Wairarapa. During the 1880's Lake Wairarapa and the surrounding lands were confiscated. In 1916 the original owners agreed to take over a block of land in the South Waikato near Mangakino as compensation. In 1948 Maori Affairs commenced a development scheme, with the land being handed back in 1983. The land was in a poor state with low productivity when handed back.

Initially the farming operation was run by a trust known as Pouakani 2Trust and the township land and forestry business run by the Mangakino Township Incorporation. In 2002 the trust and the incorporation were amalgamated and the Wairarapa Moana Incorporation was formed.

The incorporation is governed by the Ture Whenua Maori Land Act 1993.

Today the farm development consists of:

- 1,325 Ha of Sheep & Beef
- 2,870 Ha dairy
- 5000 Ha of forestry

Governance

The incorporation has five elected committee members and one co-opted member. Members retire by rotation every three years, but can make themselves available for re-election. Board members are spread all around the country. Kingi Smiler is the chairman and the executive director. The executive director's role has overview of all the Incorporation's business.

The farming operations are governed by a three member board, two of whom are appointed from the main board. The third member is appointed for his farming expertise.

Because the incorporation runs a large farming operation they have employed a highly qualified and experienced management team to run the farm. The management team has five members;

- Farm Manager on the Sheep and Beef Unit,
- Supervisor of the Sheep and Beef
- Financial Advisor
- Accountant
- Dairy Supervisor

Sheep & Beef Unit Development

This case study relates to the successful implementation of the Sheep & Beef Unit.

Following a period of investment and growth in the dairy units, the decision was made to develop the Sheep & Beef Unit (SBU) in 2003. The first step of this development was to identify the personnel required for the development.

A search for potential candidates was started, with all short-listed candidates required to submit development plans for the SBU. After this process was completed Phil Tither of AgFirst in Hastings was invited to join the farm management team as supervisor of the SBU, including the assisting in the selection of the on-farm manager. The committee realised that having on-farm skills capable of implementing the plan was vital to the success of the proposed development plan; Kynan Thomsen was invited to join the team to implement the plan.

The management team carried out an extensive review of the SBU, established a livestock and forage plan to optimise farm performance and financial returns and then identified the resources required to achieve target performance from livestock. The decision was made to use a standardised AgFirst 8 cell system, which allows flexibility in policies and ensures a consistent standard of management across the whole property.

The new plan was approved by the Committee of Management in April, 2003. Over the next 18 months over 100 kilometres of new fencing was erected to create 320 paddocks. A new water system was installed to provide a permanent water trough to each paddock, plus targeted inputs of fertiliser

and building upgrades. The total investment was \$1.25 Million, expected to provide an internal rate of return of 19%.

Different livestock enterprises were monitored using the computer program Farmax, which monitors performance and predicts challenges before they arise. Opportunities for using Farmax include:

- Monitoring animal and pasture performance
- Being proactive in tactical decision making
- Understanding cost of production and the return from different enterprises
- Communicating to farm staff, management team and trustees.

The physical production increased from 195 Kg/ha before the development to 319 by 2003/04 and was on track for over 400 kg/ha by the 2004/05 season.

Farm Key Performance Indicators

Medium Term Social Targets:

- Increasing Shareholder pride in the Sheep & Beef Farm
- Increasing shareholder numbers attending and participating in meetings
- Providing education/training opportunities for shareholders

Medium Term Environmental Targets:

- 100% gorges and streams fenced from stock
- Natives planting established in retirement areas
- Nutrient input budgets used
- Nutrient losses measured (through water quality)

Medium Term Production Targets:

- Economic Farm Surplus:
 - EFS \$500/ha
- Meat & Fibre Production:
 - Meat 400 Kg/ha
 - Wool 40 kg/ha
- Pasture Eaten:
 - 9464 kgDM/ha eaten
 - Equivalent to 17.2 SU/ha

Strategic Plan:

The incorporation has a simple one-page strategic plan outlining actions, performance indicators and five year Outcomes. This plan is supported by more detailed targets and monitoring systems.

Some of the values supporting the strategic plan:

- **Cooperation and Teamwork:**

To work as a team to maximise the potential benefits to develop best long term options for the overall business while ensuring that the separate operations perform to maximum potential

- **Open Communication Channels:**

To recognise the importance of communication at all levels of the incorporation. Open communication between the Management Team, Committee of Management and Shareholders is seen as a priority. The management team will provide for this need by providing timely, relevant information

- **Quality Driven:**

To benchmark the farming operations performance at all levels against the best that we can find. Quality assurance systems will be developed to drive this

- **People Orientation:**

To treat with respect the needs of shareholders, sharemilkers and employees. An aim is for the Incorporation to be seen as a top class employer attracting top class employees

- **Sustainability:**

To nurture the long term needs of the land, building its resource base for following generation's benefit while recognising the need to create a profitable business for the benefit of the present generation.

- **Seek Success:**

To continually look to the future to seek profitable business opportunities. These are to be regularly reported and reviewed.