

MANAGEMENT ADVISORY GROUPS FOR THE CHANGING AGRICULTURAL STRUCTURE***Allen L. Prosch and H. Douglas Jose***

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Abstract

The most dramatic change occurring in agricultural production is the change in business strategies. In the US, family farmers have traditionally made decisions with whatever information they could independently gather. Today, the ability to assimilate an overload of data into decision making information is difficult. The decision framework is also becoming more complex. The complexity of management challenges includes customer relations, price risk management, environmental regulatory compliance, zoning regulations and nutrient management. Agricultural managers need to comprehend business relationships and extract value from the use of intangible assets such as marketing systems, production alternatives, market chains and strategic planning processes. Management advisory services can assist producers, such as pork producers, extract value from these systems. Pork production must meet societal goals for production systems and environmental practices provide the operators and employees with a satisfactory livelihood and encourage future production. A survey of pork producers was conducted to determine future and current information needs, preferred methods of receiving information and the management challenges they are facing. This information will be used to develop alternative methods for producers to meet these management challenges including the formation of cooperative advisory groups. The advisory group is a cooperative method of acquiring the information and services needed to address these challenges.

Introduction

The most dramatic changes occurring in agriculture might best be described in terms of changes in the fundamental business proposition and the ways of doing business (Boehlje, 2000)²⁶. A managerial implication is that agricultural

²⁶ Boehlje, Michael. 2000. Critical Dimensions of Structural Change. a paper before the American Agricultural Economics Association Workshop on "Policy Issues in the Changing Structure of the Food System" Tampa, Florida; July, 2000.

managers will need to learn how to appreciate, employ, and extract value from the use of intangible assets (Sonka, 2000)²⁷.

Critical to understanding this change is the recognition that the concept of assets employed by an operation is more comprehensive than the perspective of resources used in the past. Previously, physical and human resources were the primary assets. Now, the operation's resources may include intangible assets such as such as marketing systems, decision-making processes, coordinating systems, and established patterns of production (Tomer, 1987)²⁸. Production, marketing and employee management systems empowered and continually refreshed by new knowledge gained from the firm's operations can be powerful sources of competitive advantage. However, Alvarez and Arias²⁹ suggest that management ability, especially on smaller family farms, does not improve without outside support. When managerial ability is a fixed input, diseconomies of size appear to occur.

Producer Needs

In the US, family farmers have traditionally made decisions by themselves with whatever information they might gather. Producers today feel the overload of data as much as any businessman. The ability to assimilate all data, turn it into decision making information and acting on that information is difficult. Increasingly the data needed is outside the normal expertise and reach of producers. Traditionally additional production information was more readily available and more commonly adapted by producers. Information and skill training to increase managerial ability were less so.

Pork producers represent a group as challenged by the need to extract value from knowledge as any segment of agriculture. Pork production has changed dramatically, consolidating into fewer larger units. Pork producers need to increase their knowledge of external influencers that affect businesses. External problems experienced with environmental and social issues do not always have tangible solutions. Producers are pinched by low margins and feel disenfranchised in their industry. Producers leave the industry despite having operations that are cost effective. They exit the industry for a

²⁷ Sonka, Steve. 2000. Challenges in Managing the Business, a paper before the American Agricultural Economics Association Workshop on "Policy Issues in the Changing Structure of the Food System" Tampa, Florida; July, 2000.

²⁸ Tomer, J.F. 1987. *Organizational Capital*. Praeger; New York .

²⁹ Alvarez, Antonio and Arias, Carlos, 2003. Diseconomies of Size with Fixed Managerial Ability, *American Journal of Agricultural Economics*. 85(1) (February 2003): 134-142.

variety of reasons including production, economic, educational, environmental, and social issues, many of which are intangible³⁰.

The skills that create competitive advantage and results in higher rewards are changing.

Producers recognize and express the need to improve these skills as noted by Reese, et al³¹ from their survey of pork producers. Their conclusion was: "These results indicate that for pork producers, educational needs in business management will increase, --- ". Their results show producers need to:

1. Have trusted resources to improve their information.
2. Have greater knowledge of the value of their products.
3. Have a better awareness and understanding of what changes to make in their operation.
4. Be able to create and manage intangible assets such as information and relationships.
5. Capture more knowledge out of their operations and capture more knowledge out of the transactions with both input suppliers and output buyers to improve their competitive advantage.

Producers who have a support system that can improve their ability to manage knowledge and extract value from that knowledge are likely to have increased success. Producers need help to accomplish these activities, which are critical to improving their ability to compete in agriculture today.

Obtaining Managerial Help

Pork producers who are already more able to extract value from such knowledge now have a competitive advantage. Those producers may hire consultants or have staff that can deal with these issues. The ability of an individual to obtain accurate, timely advice that is tailored to the individual unit is limited. One method that is becoming more common is the system involving contract production.

Producers looking to enhance their competitive position may join an operation that already possesses increased managerial ability. Production contracts become one tool to do this. By 1998, 34% of feeder pig to finish operations used

³⁰ Lawrence, John. 1997. 1997 Survey of Former Iowa Hog Producers: Motivations of Exiting and Incentives to Return. Department of Economics, Iowa State University, Ames, Iowa.

³¹ Reese, D. E., Prosch, A. L., Blodgett, S. S., and Rockwell S. K. 2002. "Educational needs of Nebraska pork producers and employees". Abstract of a paper for the American Society of Animal Scientists, 2002. University of Nebraska, Lincoln.

contract production and 63% of their output was from the contracted operations³². Key and McBride conclude that the striking and consistent magnitudes of productivity gain shown in their analysis of contract finishing in the hog sector may be due to the transfer of “know how.” Information, superior management of inputs and greater access to capital are all cited as contributing to a greater “competitive advantage” in the contract operation. These factors are management abilities that individual producers, while providing all needed labor and maintaining current production expertise, may not have the time to acquire. The contracting system likely has a staff of veterinarians, nutritionist, marketers and others to deal with the managerial complexities. For individual producers the problem is the strategic goal of the contractor. While individual producers consider the activity of production, contractors may have other motives. Providing the livestock to support a feed company, a packing company or other non-farm businesses may not be in the best interest, long term, of the individual producer. The ability to negotiate, determine what the contractor's long term goal is, and best develop an arrangement that suits the individual producer thus becomes a management skill and obstacle to producer oriented farmer's having a competitive advantage in this system of production. Very limited advice is available for these situations. A producer can obtain legal advice on the contract itself for a fee, and may be able to get some help to determine if the contract is common to the industry. Information on the strengths, weaknesses and objectives of the contracting company are much harder to obtain. Contracting for a production system may be an answer that works well for some producers, but others may not find it attractive.

Allowing the competitive advantage of increased management ability to drive production agriculture to even greater consolidation may also not be a desired outcome. Production agriculture needs innovation and flexibility in a global economy. To maintain a responsive agricultural system, increased managerial ability would be valuable at all levels. Many new value-added efforts require an even greater degree of managerial ability than large conventional production.

University Extension

University Extension has long filled a role in increasing the knowledge of producers. As the production agriculture sector consolidates, public funding is directed towards activities that involve more of the public. The persons involved in production agriculture can expect that, as their numbers decrease, it will be more difficult to have all educational needs supported. Many production activities affect the entire industry and therefore still draw support. Most educational activities involving managerial skills affect only the business of those individuals who grasp the concepts and find ways to apply them. Therefore, public support may be diminished.

³² Key, Nigel and McBride, William. 2003. Production Contracts and Productivity in the U.S. Hog Sector. American Journal of Agricultural Economics. 85(1) (February 2003): 121-133.

Private Consultants

Private consultants are challenged to provide in depth service while expanding a client base. The cost of having full time consultants on a smaller operation is prohibitive. However when a producer is part of a consultant's larger cliental, the limited contact reduces the consultant's ability to make advice producer-specific and reduces the producer's ability to trust and rely on the advice. In either case, whether hiring a consultant or hiring staff, the producer with higher volume can obtain a greater degree of individual attention. Individual attention given to extracting value from intangible assets, be that specific knowledge, a production or marketing system or a business relationship, gives that producer a new competitive advantage. It increases that business's ability to understand and to deal with complex issues.

Producer Owned Advisory System

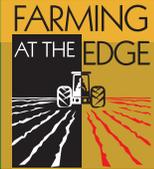
While US producers have been expected to find these resources and develop individual abilities and implement them on their own, other countries have notable variations. Danish agricultural producers have a producer owned system that gives farmers advise on technical, economic, educational, information technology, environmental and social issues. The Danish advisory system is rather unique³³. The advisory system is cooperatively owned by the farmers and is composed of The Danish Agricultural Advisory Centre and 85 local advisory centers that deal directly with the farmer members. "The service keeps farmers abreast of recent research findings and its advisors ensure that agricultural production methods are technically and economically optimized and subject to continuous improvement. This benefits the farming industry and the wider community"⁸. This system hires 3,250 people of which about 1,000 are advisers and the remainder is composed of agro-technicians and assistants. Farmers themselves have recognized the increasing demand for impartial advice. Farmers pay the cost as state subsidies have been reduced. The local advisory service has between 25 and 30 farms per advisor. Danish producers, as is true of most European producers, deal with more social, environmental and government pressure than do most US producers. However, according to Ove Christensen, Head of International Department, Dalum Agricultural College³⁴, it is the close connection between production practices and economic optimization that has both justified the advisory systems existence and made it a valuable part of the Danish farmers management team.

To gain the desired competitive skills, those producers whose scale cannot justify staff or individual consultants may need to join together to create special advice that is focused on their individual operations. To do so they would need to work

³³ The Danish Agricultural Advisory Centre. 2000. Being a Farmer in Denmark, Organization, Advise and Education, The Danish Model.

³⁴ A meeting and conversation with Ove Christensen on April 28, 2003 at the University of Nebraska Animal Science Department.

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together to spread that input cost over sufficient production units. They would not have to become expert at extracting value from intangible assets, nor would they be required to acquire all the data to make decisions. Together they could gain the competitive advantage now being enjoyed by a limited number of producers.

Producers do need to be able to trust and rely on the advisor. The consultant or advisor focus needs to be on their unit and the best solutions for their operation. One method to accomplish that would be to create a jointly owned business entity that hired the specialist needed. This would tend to minimize conflict of interest, avoid time spent on marketing the consulting business and allow specialist to concentrate on providing high quality service.

Producers identify the highest priority needs and acquire persons with expertise to provide them with service. Items such as customer relations, price risk management, environmental regulatory compliance, zoning regulations and comprehensive nutrient management planning are issues of such complexity and such magnitudes of change that producers would benefit from advice specific to their operation.

Conclusion

Reducing the diversity of type and size of producer threatens the flexibility of the agricultural production industry. When challenged by new or unusual circumstances to meet societal goals production systems must meet objectives in environment and animal husbandry practices. Agricultural production must also provide the producers and employees with a livelihood that is satisfactory and that encourages future participation. Allowing a competitive advantage in managerial ability to drive production agriculture towards more consolidation and decreased ownerships may not be desirable. Increasing the competitive advantage of a larger number of individual producers is important to the future of the industry.

Authors

Mr. Prosch has a background in business management. He has been a farmer, an agricultural loan officer and has worked with beginning farmers. In his current position he coordinates an interdisciplinary effort to provide information to pork producers in Nebraska. He maintains a website where he provides a weekly analysis of pork markets and alternative marketing strategies.

Dr. Jose has organized and conducted a variety of extension programs related to business management and decision strategies. He was a member of the group which received the American Agricultural Economics Association's "Distinguished Extension Program - Group" Award in 2001 for their work in developing risk management education programs. He is a Director of the IFMA.