FARM MANAGEMENT: CHALLENGES AND RESPONSIBILITIES FOR A NEW AGE

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"Let's face it it - most farmers dislike keeping records. They would rather trade tractors, buy or sell cattle, experiment with a new herbicide, or ride a combine at harvest time than spend time keeping and analyzing a record of their business." This was a statement made by the first farm analysis specialist in Kentucky, Melvin Gehelbach in 1962, the first year of the Farm Business Analysis program in Kentucky. While the past few years may have given rise to a renewed interest in records and analysis, Melvin's statement is still very true. In 1962, however, the penalty for not keeping and analyzing one's records was not as great as it is today. Consequently, even though farmers would rather be trading machinery or almost anything else, more are recognizing the need and requesting assistance with this aspect of their business.

One unfortunate aspect of this increased demand for assistance with records and analysis at this particular time is that it is occurring at a time when federal and state budgets for education appear to be shrinking. The desire at both the state and federal level is to live within the budget (or trim the deficit). This means that all programs and budget items are being scrutinized very harshly, and such unglamorous programs as records and business analysis programs seem to be "selected against" in many states. Even our own colleagues at the departmental level many times are anxious to suggest that records and business analysis programs be the first to go in a budget saving effort. This, we would suggest, is indeed unfortunate!

One can see by merely looking over the topics being addressed at this workshop that the charge of doing more with less, of finding new and different ways of conducting extension programs, and of searching for ways to make the budget dollar stretch must be common to the extension staffs in all of our states. The necessity, due to budget, to provide less one-on-one kinds of assistance and to do more "extensive" sorts of education occurs at a time when our farmer clients need very individualized, in depth help. The traditional extension system is still very necessary for the education of the masses. However, if effective, this creates the awareness and the demand for more individualized follow-up assistance. We feel that the Farm Business Analysis Group or Farm Management Association approach is an extremely effective way of meeting this need.
Benefits Accruing to Participating Farmers

The most immediate benefactor of the farm analysis group approach obviously is the participating farmer or "the cooperator." The benefits are many. They start with the generation of a complete accounting of both the physical and the financial aspects of the cooperator's business. Those with only a limited knowledge of the farm management association concept many times feel that the benefits stop at this point. If that were the case, any well disciplined farmer with a farm account book could accomplish the same thing. The real benefits of the farm management association approach do not end at this point, rather they begin.

The business summary and analysis that takes place after the fundamental record is generated is the real "pay-off" to the participating farmer. Having a fieldman (area farm analysis extension specialist) who is familiar with one's operation and with the goals of the individuals involved to evaluate and analyze the summary data and then to very thoroughly go over the analysis with the cooperator is probably the greatest benefit to the cooperator. The farmer has an unbiased, professional fieldman make periodic visits to his farm throughout the year to consult on management decisions and to answer questions regarding the "keeping of the record." A somewhat less glamorous "side benefit" that accrues due to these periodic visits, is that timely posting of the record book is more likely.

As the year draws to a close, the farmer benefits from year end income tax planning with this individual who recognizes the business goals of the farm firm as well as the tax minimization desires of the individual. The farmer also benefits from having the fieldman check the record book for completeness and accuracy prior to summary to ensure that the production and financial information is as accurate as possible.

Because all cooperators are using the same record system, the comparative analysis that is provided is very meaningful. As the record keeping function is supervised by the fieldman, a higher level of confidence is assured that specific income and cost figures are comparable between farm. In less supervised programs cost items may be handled differently or end up in different categories, and some figures may be distorted. The comparison of one's own performance with that of other farms of the similar size and type of farm provides very valuable insight into one's own business performance.

Data of the nature that is generated from a farm management association regarding one's own business is essential during times of financial stress such as American agriculture is experiencing now. By-products of the record that is generated through the farm business analysis group program are accurate financial statements and income tax information. Cash flow information on monthly, quarterly or annual basis is available. A modified cost basis balance sheet is generated for each cooperator, and a fair market value balance sheet is possible if the cooperator and the fieldman go to the extra effort to determine the appropriate asset values. An
income statement is generated which provides the basis for real evaluation of the business, and for reconciliation of changes in one's net worth. These coordinated statements provide both the cooperator and the lender with the needed information for difficult financial decisions.

The other "by-product" benefit of the record generated through the management association is the generation of income tax filing information. In Kentucky, tax return preparation is not a part of the service provided; however, several of the tax reporting schedules and forms are computer generated as a part of the final reports.

Benefits Accruing to the University

Benefits accruing to persons other than the individual cooperators of a farm business analysis group are many. Actually, there is no other readily available source of information of the kind generated out of such associations. This information generated is not controlled test trial data, nor is it laboratory experiment results, nor survey data. The data are actual on-farm, real world data, thus providing insights into just what farmers are experiencing "down on the farm." Legislators, agribusiness personnel, state and federal agencies, and department and university administrators are called on routinely to make decisions regarding adoption and funding of programs affecting farmers and the "farm situation." County and state average data which are voluntarily reported via survey or other means many times do not accurately reflect the actual situation "on the farm" or at least people have suspicions about and less confidence in them. Having a data base such as the farm analysis group data can help alleviate these problems.

The farm business analysis group data in Kentucky are currently being used as a data source for several research projects, numerous extension programs, and for classroom problems and discussions. Detailed enterprise studies for swine and dairy have provided invaluable data for educational efforts relating to these two enterprises. The farm analysis data are used by other nonagricultural economics specialists as a basis for their extension programs.

These farm analysis data serve as a basis for numerous farm budgets, farm planning, and other decision making publications that are used extensively throughout the state by nonassociation farmers. Moreover, the reception of these publications because the users know that they are based on "real farm numbers" rather than "university generated" numbers is very widespread.

Features that make farm analysis group data so appealing are these. They are generated from a system that has been scrutinized by and found to be sound by professionals in accounting. The system is supervised by an unbiased professional (some totally within the extension system and some not) who have absolutely nothing to gain by manipulating the numbers to reflect a farmer in a better or worse situation than actually exists. The data are generated from a system that has numerous checks and balances to ensure that the numbers are as accurate as possible, whereas there is
always the possibility that survey data and even data from a year end mail
dend system may have been "adjusted" slightly by the reporter to portray one
in a little better light.

The bottom line is that the university can not generate a comparable,
continuous source of reliable data that will provide as much insight into
the agriculture of the state as the farm analysis program from any other source.
It is a program that is well worth the cost in terms of university budget.

Organization of A Farm Management Association

The organization of a farm management association and its relationship to
the university and the extension service can vary greatly from state to state.
The Kentucky organization consists of seven farm analysis associations, with
four having one area extension farm management specialist (fieldman) each,
two having two fieldmen, and one having four fieldmen serving participating
farmers. Each local association is incorporated and is governed by a board
of directors. These local boards are usually made up of one cooperator from
each county with extra representation from counties with more than a specified
number of cooperators. The composition of the boards vary from association to
association. Each local association has two representatives that serve as
a state board of directors for statewide coordination.

The fieldmen in Kentucky are 100 percent extension employees within the
Department of Agricultural Economics. This relationship varies from state
to state with some fieldmen being totally outside of the extension service
and fully employees of the association. Various other relationships exist
between these two extremes. We feel it is quite advantageous to maintain a
close extension relationship. This provides: (1) job security for the
fieldmen; (2) College of Agriculture research backing; and (3) insured
continuity of the program for the cooperators.

An M.S. degree in Agricultural Economics is required for employment in
Kentucky as a fieldman. Hiring of these individuals requires approval by
both the Agricultural Economics Department and the local board of directors.
Salaries are determined by negotiation between the Department and the individual
without involvement of the local board.

A state extension specialist in Kentucky devotes a major portion of his
time to working with and coordinating this extension program. For several
years there was no state coordinator in Kentucky and the program suffered
as do most extension programs when left to exist on their own.

Relationship to Other Extension Personnel

In Kentucky the farm business analysis specialist (fieldman) does not
fall within the supervision of the area extension director as do county
extension personnel. They are supervised by the state coordinator within the
Department of Agricultural Economics. They are treated the same as state
specialists are in terms of reports, etc. Extension administration channels
go from the specialist, through the assistant extension director for agricultural programs, to the associate dean and extension director to the dean of the college of agriculture. Subject matter channels go through the department.

The farm management association program is carried out on a multicounty basis, but is coordinated within each county through the county agent. Fieldmen are available to be included in county programs and respond to county extension agent requests as their time and workload permit.

There needs to be a note of caution sounded at this point. If the program is not thoroughly understood by the county agent, and if the working relationship and program responsibilities fully understood, there may be a tendency for the county agent to feel threatened. The feeling that the farm analysis specialist may "move in and take all of my best extension supporters away" can be a very real fear. This mistaken impression of the role of fieldman can be very detrimental to development and expansion of the association in the given county.

The desired relationship, which can exist if both parties fully understand and appreciate the specific roles of the other, is one where the county agent will in effect have a "consultant" in the areas of farm management and farm analysis at its disposal. The fieldman will recommend the cooperator see his county agent for the kinds of recommendations and services available through his office, and the county agent will recommend the fieldman for assistance in the areas of farm records and business analysis.

The support of the county extension agent is directly related to the success a farm management association will experience in a given county. Support prior to initiation of the association rather than support in "defending" the concept a few years into the program is extremely beneficial. The time spent in insuring that the county agent and the fieldman fully understand the benefit available from a strong cooperative relationship will be time well spent.

Funding of Farm Management Association

Funding of associations vary from state to state as do the relationships of the programs to the universities. In Kentucky the program is paid for jointly by the farmer cooperators and the College of Agriculture. The costs of the program are shared basically on a one third-two thirds basis with the farmers paying for two thirds of the cost. It was determined that when the fieldman is serving a "full load" of 70-75 farmers that approximately 15 percent of his time is spent on extension responsibilities other than those directly attributable to the farm analysis program. Consequently, 85 percent of the total cost of having a fieldman in an area is the cost that is shared in the 2:1 ratio.
The anticipated costs for the succeeding budget year are estimated based on prior year's costs and anticipated increases. The appropriate two thirds share is determined, and the association then knows the total amount that must be forwarded for the year. The local board then can determine how they are going to generate the designated amount.

This "flat rate" structure for each association is a relatively new system in Kentucky. Until this year the fee per cooperator was determined by looking at the total cost of the program statewide and the total membership statewide and making an equal allocation per cooperator. This, as you can see, does not take into account membership distribution or differences in "costs of doing business" in different areas of the state. Consequently, we found ourselves in a position where cooperator loads were large in some areas (with an expressed desire to expand and add an additional fieldman), while other fieldmen had relatively small cooperator loads. But, because statewide membership did not indicate sufficient support for an additional fieldman, expansion in the requesting areas was hindered. Under the present system a flat amount is determined and the local board can then determine the number of cooperators desired at a given fee to generate the required revenue. This also provides incentives to associations to have an appropriate number of members to justify the additional fieldman.

Initiation of A Farm Management Association

How to get such a farm management association started is the question that remains. As with any extension program, there must be a need that is expressed by farmers. As you all know, most administrators respond to needs expressed by farm leaders much more rapidly than they do to a perceived and justified need expressed by extension specialists on behalf of the farmer. It seems much more comfortable for administration to agree with us about the benefits of a program suggestion, but to decline full support on the basis of "we just can't see our way clear to go with the program at this time, but when we get more money we'll certainly reconsider."

Consequently, the need must be expressed by the interested and requesting farmers. However, these individuals must be aware of the benefits of such a program before they can express a desire for assistance. "If I had known there was something like indoor plumbing, I wouldn't have been satisfied just walking to the well." In many instances if a group of farmers are aware of the assistance that could be available and the benefits possible from a program such as a farm analysis group they would 1) be willing to make requests and 2) be more than willing to pay their fair share. In other words, if farmers aren't aware of the alternative, choice can't be made. We have that awareness or educational responsibility. If we specialists are "lukewarm" about a program such as this, the county agents will be the same and the program will not get off the ground. If we are enthused about the benefits and make people aware of the possible advantages, this can be one of the most beneficial and rewarding programs to both the participant and the college that a College of Agriculture could support.
Initiation of a farm management association program does take money. There has to be some up-front money or "grubstake" money from somewhere. We feel very strongly that the advantages of being a part of the college and the extension service far outweigh the disadvantages. Consequently, the college may be the initial source of dollars.

There needs to be a state specialist who is given the responsibility for the overall program. While this is not absolutely necessary, it certainly alleviates problems and facilitates the whole start up process. This individual can educate county agents and other specialists regarding the program, assist with educational meetings with farmers, and coordinate the efforts of all involved in the program initiation phase.

We gave no mystical knowledge about the "right or wrong" way to go about the actual mechanics of starting an association. There are some experiences that we've had in Kentucky, however, that may prove beneficial. In our experience of starting a new association in an area of the state where one has never existed, it is extremely difficult to start the group with a "full membership" of 70 to 80 cooperators. It is much wiser to start with 30-40 (or less) farmers the first year and "mature" together in the process over a few years to the desired number. This initial period is even more difficult if the fieldman that is hired has had no experience with this particular type of program. We have found that an experienced fieldman can be combined with a large group of "new cooperators" or that an inexperienced fieldman can be combined with a large group of "old cooperators" and either be successful. However, an inexperienced fieldman is much more successful, and consequently the association more successful, if his initial group, whether it be the first such group in the state or whether it is an "expansion" group, if the number of cooperators is held to the 30-40 range.

The item of funding obviously raises its head again at this point. Hiring a fieldman obviously means a large commitment of funds for salary and support. Having 30-40 farmers be responsible for the entire obligation initially may be unrealistic. Thus, the commitment on the part of the college to "subsidize" the initiation or the start up phase of an association is helpful. A definite plan for assuming total responsibility for the association's share of the total costs of such a program is essential. But to place total responsibility for the total costs on our recommended small starting membership may be counterproductive. A two or three year time horizon of this assumption of total financial responsibility seems to be appropriate.

Summary

We feel strongly that the farm management association concept is an extremely sound and worthwhile approach to meeting the needs of our farmer clientele. Farmers are needing assistance with the financial management phase of their businesses. They need complete production and financial records and analyses to make the very difficult decisions that they are
required to make in the current economic setting. We at this same time are currently faced with budget constraints that prohibit the expansion of the traditional extension staff numbers to such a level that we can meet this need for indepth, one-on-one kinds of assistance. Consequently, the cooperative nature of the farm management association approach appears to be a very workable alternative to the needs facing both the farmer and the extension service.