

Peer Advisory Groups and Continuous Management Improvement

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Peer Advisory Groups and Continuous Management Improvement

- Jack Welch, former CEO/Chairman of General Electric

The only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition

- Douglas Adams, author of The Breakthrough Company

Human beings, who are almost unique in the ability to learn from the experiences of others, are also remarkable for their disinclination to do so.

- Eric Hoffer, philosopher

In times of change, the learners inherit the earth, while the learned find themselves beautifully equipped to deal with a work that no longer exists.

Peer Advisory Groups and Continuous Management Improvement

There are four states of knowledge:

- What you know
- What you know you don't know
- What you don't know you don't know
- What you think you know, that just ain't so

Peer Advisory Groups and Continuous Management Improvement

- Purpose and objective
- Structure and composition
- Guidelines and requirements for success

Peer Advisory Groups and Continuous Management Improvement (cont.)

Advantages of peer advisory groups

- Multiple vantage points and different perspectives
- Sounding board for plans and ideas
- Honest and constructive feedback
- Identifying alternatives and exploring what if scenarios

Peer Advisory Groups and Continuous Management Improvement (cont.)

Advantages of peer advisory groups(cont.)

- Increased insight and objectivity
- Reducing or overcoming implementation issues
- Benchmarking
- Identifying opportunities to capture economies of scale, reduce costs, improve asset utilization, employ/access greater technical/specialized management expertise, and gaining market access through collaborative efforts

Peer Advisory Groups and Continuous Management Improvement (cont.)

Advantages of peer advisory groups (Cont.)

- Seeing the bigger picture
- Expanded information access
- Drawing on different strengths and experiences and compensating for weaknesses
- Education and needs based training

Advantages of peer advisory groups (Cont.)

- Accountability
- Overcoming isolation
- Encouragement, support and understanding
- Pushing out of comfort zones

The Need for FFSC Peer Group Financial Benchmarking Guidelines

- Much of what I intended to focus on is addressed in a discussion draft for the FFSC written by Barb Wheeling, Dick Wittman and Todd Doehring titled “Cautions When Aggregating Financial Information for Benchmarking Comparisons” (included in handouts)
- Also, on July 11-12, the Association of Agricultural Production Executives (AAPEX) held a national conference on “Peer Advisory Groups: Best Practices and Alternative Structures”

The Need for FFSC Peer Group Financial Benchmarking Guidelines

- Based on my observations over the past 35 years and the two things just listed, I would like to wrap up by looking at two areas:
 1. FFSC guidelines and adoption
 - It has been extremely “too” slow even though widely accepted, written about and taught (Frey, Kohl, Barnard, Wittman, Ellinger, Duelke, Ellinger, the whole crew from Minnesota, ...)

The Need for FFSC Peer Group Financial Benchmarking Guidelines

1. FFSC guidelines and adoption (cont)

- The emphasis has been on accessibility
 - Build it, publicize it, and they will come
- Encourage lenders to pretty much forget across the board adoption and focus on:
 - Continuous improvement oriented top operators looking for ways to differentiate themselves and as a capital access risk mitigation strategy
 - The up and comers – often a generational issue
 - Those who are at a point where they have no choice

The Need for FFSC Peer Group Financial Benchmarking Guidelines

1. FFSC guidelines and adoption (cont)

- Might not be a popular concept; but, educate the regulators (FDIC, OCC, state bank examiners, FCA) – consider a series of regional conferences or national schools, probably at least 2 ½ days, very hands on
- I truly believe that facilitated peer advisory groups (PAGs) can be the most effective vehicle

The Need for FFSC Peer Group Financial Benchmarking Guidelines

1. FFSC guidelines and adoption (cont)
 - PAGs can get buy-in with a support system – in depth, targeted education; clear understanding and recognition of the benefits and payoff; with both ongoing professional and peer support of the implementation process and broad based education
 - The “Management Accounting Guidelines for Agricultural Producers” are excellent quality and a great resource; but, too much for all but those who have a fairly high level of financial/accounting sophistication, who are totally committed, or have employed the expertise

The Need for FFSC Peer Group Financial Benchmarking Guidelines

1. FFSC guidelines and adoption (cont)

- My guess is that it is less than 2 percent of even true commercial farmers and ranchers
- Except for the most progressive state Farm Business Farm Management Associations, Farm Credit associations, commercial banks, and a few agriculturally oriented accounting firms, the concept of a financial benchmark database hasn't gained any traction or momentum

The Need for FFSC Peer Group Financial Benchmarking Guidelines

2. Suggestions

- Shift more effort to a leader:follower approach
- Recognize it will be an evolution
 - Confidentiality concerns
 - Time, effort, cost
 - AACREA, FBI, Spader, Farrell

The Need for FFSC Peer Group Financial Benchmarking Guidelines

2. Suggestions (cont)

- Most producers and facilitators/consultants are going to begin with:
 - Combinations of operational and financial metrics
 - Enterprise/unit level costs, rather than cost:profit centers
 - A few key whole farm financial ratios
- Many peer group facilitators will not be agricultural accountants or financial consultants

The Need for FFSC Peer Group Financial Benchmarking Guidelines

2. Suggestions (cont)

- FFSC needs to develop a basic Peer Advisory Group financial benchmarking guidebook, e.g., maybe 25 pages, with questions, things to consider, minimum standards for relative comparability, and some alternatives and basics regarding overhead allocation to enterprises
- A couple of additional suggestions regarding the Wheeling, Wittman, Doehring discussion draft