

Session 5.1 Management approaches

Key learning points



- Management basics
- Types of commercial business
- Business and farm planning
- Facilities and raw materials
- Creativity and innovation
- Having the right attitude
- Management and staff development
- Taxation, legislation and support

Main objectives of the session

By the end of this session, participants will be better able to:



- Understand and select appropriate business structures
- Set farm and business objectives
- Prepare a business plan and strategy
- Conduct PEST and SWOT analyses
- Develop creative ideas
- Select appropriate facilities, support materials and staff
- Be more determined and positive
- Manage and develop teams
- Understand farm and business legislation
- Use support organisations effectively

5.1.1 Management basics

Any commercial activity, a farm, a processor or a trader, no matter how large or small, is a commercial enterprise and if they are to be commercially successful they have to be managed correctly.

Management is a set of activities directed at the resources of an organisation (human, financial, physical, and information) with the aim of achieving organisational goals in an efficient and effective manner. This will involve setting objectives and planning, communicating, organising, leading, controlling and monitoring. It will involve managing and motivating people (and yourself), effectively negotiating with buyers, suppliers and financiers, identifying, anticipating and solving problems, undertaking research and making immediate and long term decisions. It will also require identifying and setting job tasks and effectively delegating responsibilities.

Good management is not easy, particularly as many tasks are not performed within a systematic and predictable schedule. Successful managers need to go through an ongoing process of work experience by which they learn and continuously improve and supported by relevant and practical training or mentoring.

Management can also be differentiated by level, owners, top, middle, and first-line managers and by specialist area, such as marketing, financial, operations, human resource, administrative. Good managers will require both specialist skills but they also need more general management skills, in areas such as communication, negotiation, team building or time management in order to be successful.

This session outlines the basic skills necessary for establishing and managing a business and provides trainers and advisers with guidance on how to assist in developing general management skills.

5.1.2 Types of commercial business

The laws concerning the types of enterprise that can be set up vary in different countries varies according to the legal and economic framework of the country concerned. The best structure for a business depends partly on the wishes of the owners and partly on the type of production to be undertaken. Typically in most countries the law allows the registration of the following types of business. Each has its advantages and disadvantages and business may seek legal advice on the most appropriate form.

- **Sole trader** - Normally this is the easiest (and cheapest) business form to establish. The business is owned and operated by one person. The owner, who has total responsibility and control, undertakes all decision-making and all profits (and losses) go to the owner who is normally taxed as an individual and not as a business.

A major disadvantage for a sole trader is that he is fully responsible for all debts and this liability can extend to his own personal assets, such as his home, if the business does not have sufficient cash to cover all debts.

- ❑ **Partnership** - A partnership is also simple to establish and involves two or more people jointly running the business and as is the case with a sole trader, they are equally responsible for all company activities and liabilities.

Trust is very important in a partnership but it is still normal for an agreement to be signed between partners. This agreement outlines the responsibilities of each partner in the event of any arguments. The agreement would cover areas such as, how profits are shared, what would happen if the company was liquidated, what job responsibilities each person has, how much each partner will invest etc.

The major disadvantage of a partnership is that all partners are personally responsible for debt. The partner with the greater personal assets can potentially lose more.

- ❑ **Limited liability company** - A limited company is different in that it is legally separated from its owners. As such they would normally not be liable for its debts (only for the amount they have invested) in the case of insolvency, although they may be asked to give personal guarantees on certain loans and liabilities. In most countries the company must submit properly prepared and audited financial statements to the relevant authorities.

There are very specific rules governing the way in which a limited liability company is set up and managed and these must be followed. Ownership and authority within the company can be transferred to another person and it is normally easier to raise long-term capital for development.

The major disadvantages of a limited liability company is the increased number of Government regulations and tax liabilities and the higher overall costs of forming and administrating the business.

- ❑ **Co-operative** - These are formed by groups of producers in order to jointly market their products or to add some value to production by storing, grading or cleaning produce. These cooperatives normally only have liability for any debts equivalent to the amount invested by individual producers. They differ mainly from limited liability companies in that profits are normally distributed according to the amount of produce delivered through the group, rather than according to capital invested. Ownership is restricted to producers, each with one vote, or in accordance with the amount of produce they market through the group.

The major disadvantage of a co-operative is often due to the management inexperience of the owners and the difficulties in ensuring consensus between them on business objectives, product standards and marketing procedures. A group is also likely to have increased administrative costs and possible additional tax liabilities in relation to an individual farming unit.

- ❑ **Public limited liability company** – A public limited liability company is a company whereby the shares of the company are openly bought and sold through a stock exchange. The value of the shares rise and fall according to the performance of the company.

5.1.3 Business and farm planning

A business plan or farm plan provides a defined route to follow and a clear destination. Planning is identifying where a company, farm or individual wants to be sometime in the future and deciding how they are going to get there. It provides everyone with a shared vision of the future.

Business plans normally include statements of where the farm or other business will be in the longer term (normally 5 years) and defined targets to achieve in order to get there. It outlines where the farm or other business form would like to be in the market place as well as the facilities, equipment structure and finance needed to get there. The plan has to be developed to take into account the realities of the market and reflect what is really achievable.

When preparing a business plan getting started is often the hardest part. Producing it from nothing can be daunting and a number of opinions will need to be sought and including the ideas of those people that are expected to implement it. Ideas and feedback are important in developing a business plan.

Future planning is much more effective if the present is analysed first and managers ask - what will happen if we do nothing? What political, economic, social and technological (PEST) developments are there likely to be? The farm or company will need to review their existing products and services, customers, markets and competitors and to make an honest assessment of their current strengths and weaknesses and potential opportunities and threats for the future.

Coming up with ideas for developing the plan may be a creative process. The best technique for freeing creativity is through brainstorming. This involves displaying an objective on an overhead, whiteboard or piece of flipchart paper and asking a strategy team to suggest ideas for helping to achieve the objective. All ideas should be written on to a flipchart and all suggestions recorded. The aim is to attract as many ideas as possible, and encourage all group members to participate and develop innovative solutions. The most interesting ideas can be selected and more information on their feasibility obtained.

Once objectives are set they should be clear and unambiguous, particularly as they will become staging posts on the way towards fulfilling long term goals. All objectives should have measurable quantities and timeframes, supported by a detailed timetable of activity and ideas given high, medium or low priorities. A budget will also have to be carefully prepared in support of the plan.

Planning and preparing a marketing strategy is only a means to an end. Results will come from implementing it. It is important not to invest considerable effort in developing a strategy and then let enthusiasm and energy wane when it comes to implementation. Business strategies need to be put into action and not left to gather dust on a shelf.

Tasks and activities due for implementation within the next 12 months need to be allocated to named persons and progress reviewed, performance measured and objectives periodically revised. The world is not static. Objectives should be reviewed

every six months or at the end of the year and to check that the farm and business is still on course.

5.1.4 Facilities and raw materials

A number of different technical aspects will have to be considered if the farm and business is to be able to develop the required product at the expected quality and price. This needs careful thought and planning to ensure that all aspects of a process operate together without hold-ups, unnecessary expense or wastage.

The series of questions below is helpful in deciding the facility and raw material requirements of the farm and business.

- Is a suitable building available?
- What modifications to the building are needed?
- Are services (fuel, water, electricity, gas, etc) available and affordable?
- Are enough raw materials available when needed?
- Are the raw materials of the correct quality?
- Is the cost of raw materials satisfactory to maintain production for a reasonable period during the year?
- Is the correct size and type of equipment available for the expected production level and at a reasonable cost?
- Can suitable equipment be made by local workshops?
- Are maintenance and repair costs affordable?
- Are suitable packaging materials available and affordable?
- Are distribution procedures to retailers and other sellers established?
- Are sufficient vehicles of a suitable type available for achieving all goals?

5.1.5 Creativity and innovation

All business activities involve taking risks and growers and managers should be aware of these risks as well as the likely rewards. Not anyone can run a successful farm or business. It needs commitment, self-reliance and determination, a positive approach and a real belief in success. Some growers or companies like to follow rather than lead and dislike taking risks. They will tend to wait to see which way a market will go before deciding whether to take any action. Although these growers may lack a pioneering spirit they might still attain success if they can deliver a better product or service compared to the competition.

However in some cases companies and growers always conduct work in the same way and see no reason to change. They are conservative, insular and complacent. Activity has to be driven by customer need and not by habit or tradition. The following table compares signs of a non forward looking orientated company or farm with one that is stagnating.

Stagnating	Forward looking
<ul style="list-style-type: none"> ❑ Diminishing market share ❑ Low profit margins together with low volume ❑ Ageing products ❑ Consistent dissatisfaction of customers ❑ Quality/reliability problems ❑ Consistently late deliveries ❑ Heavy dependence on one or two customers/suppliers ❑ Heavy borrowing requirement ❑ Production methods which are old fashioned ❑ Poor industrial relations ❑ High turnover of employees ❑ Management out of tune with commercial realities ❑ Top heavy organisation ❑ Inflexible management ❑ Lack of communication between management and team members ❑ Inward looking management 	<ul style="list-style-type: none"> ❑ Awareness of competition ❑ High investment in research and development ❑ Regular flow of new products ❑ Careful use of consumer research and test marketing ❑ Rapid response to complaints of customers ❑ The quality the customer wants ❑ Concern for customer service ❑ Pricing that is appropriate to the customer ❑ Enthusiastic employees ❑ Accessible management ❑ Flexible organisation ❑ Decentralised decision making ❑ Concentration on critical success factors ❑ Supportive financial controls

5.1.6 Having the right attitude

Almost anyone can be a manager, but some people are better at operating a farm or business than others. Going into business with the wrong temperament can be very costly and disappointing. There are many people running successful businesses even though they have neither qualifications nor training. However they have not lacked commitment, a determination to succeed, a competitive attitude or the ability to work extremely long hours. The following list highlights a few typical characteristics of successful growers and business entrepreneurs:

- ❑ **A self-starter** – One who is able to identify business opportunities as they arise and confidently act upon them without assistance from others
- ❑ **Determined** - It will take great determination to manage a farm or business
- ❑ **Self disciplined and motivated** - Working alone, sometimes outside normal working hours, will require a high degree of self sufficiency and motivating others is an important management responsibility
- ❑ **Accountable** - Blaming others if things go wrong is not possible. Actions can be delegated but accountability cannot
- ❑ **Innovative** – It is necessary to come up with better methods of operating, and new ideas to give customers the service they deserve on a continual basis
- ❑ **Enthusiastic** - Being enthusiastic about plans and products and get others involved. It also gives confidence to customers, lenders and staff

- ❑ **Positive** – It is necessary to be positive about one’s own abilities about the products and services that are being offered and about colleagues
- ❑ **A good salesperson, communicator and negotiator** - Able to sell ideas and communicate effectively with customers, suppliers, staff and Government officials
- ❑ **Flexible** – It is necessary to be able to juggle many tasks, often at the same time
- ❑ **Questioning and listening** - The self-assurance to ask questions in order to obtain the information on which to build a farm or business and to listen to other opinions

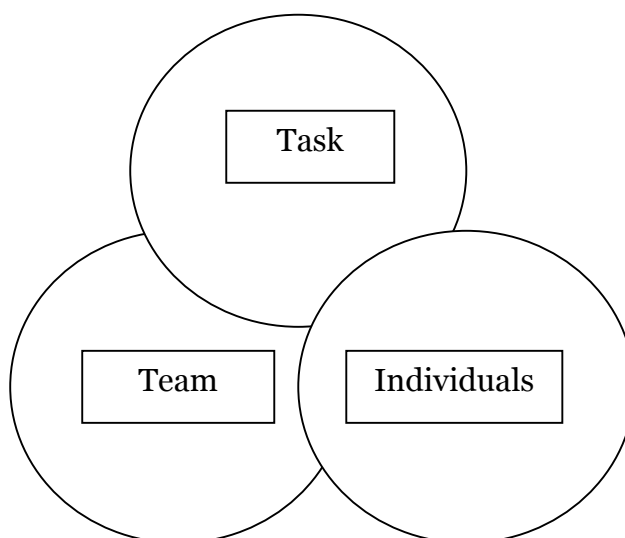
5.1.7 Building teams and managing people

The success of any business depends on the constructive use of its resources to achieve its goals. The human resources of any business not only tend to be the most expensive (certainly in terms of running costs) but often the least maintained. Time and money are finite but personnel resources can be infinitely developed. Stable and profitable companies often take a long-term view of human resources and encourage people to fulfil their full potential primarily because it is in the companies best interests to do so. Training and development of staff needs to be an integral part of the business plan.

Management competency is a balance of knowledge, skills and attitudes. Knowledge is the technical information required to carry out the task effectively, such as an understanding of legislation. Skill is the ability to take the theory and put it into practice and attitude is the self-drive and determination to make things happen.

Not everyone is motivated only by money. Sometimes motivation is a complex mix of influencing factors, including areas such as achieving their full potential, family stability, trust, leadership, hobbies, interests or beliefs. Good managers are able to motivate affectively, help to build teams, while respecting the needs and desires of individuals. Balancing the three is important.

FIGURE: Tasks, teams and individuals



It is important to recognise the skills and training needs of individuals and develop them to the advantage of an organisation. This will involving undertaking appraisals

alongside team members and preparing detailed training plans with agree performance objectives established. It is important for managers to establish and strengthen the trust with the people they manage and to develop teams motivated to implement activities and drive the business forward.

Good managers communicate effectively and are able to trust their team members. Their team members also trust them. Good managers are confident enough to share ideas and information and delegate important tasks. However while delegating tasks, and ensuring that people are properly rewarded for successfully achieving positive results, they can never delegate ultimate responsibility.

5.1.8 Taxation, legislation and support

In most countries businesses must be registered with the local Government authority and the taxation authorities. It will be necessary to register with the taxation authorities in order to avoid prosecution later or closure of the farm or business.

Additional certificates may be required for certain types of farm or business. For example, a certificate may be needed from the bureau of standards, department of health or similar authority before production takes place. It is important to ensure that all relevant certificates are obtained before starting production and farms and businesses can expect to be visited by relevant officials to ensure that all the necessary legal procedures are being followed. For example, a food business is likely to expect regular visits from officials checking health and hygiene.

Professional advice on the best type of farm or business to establish and how to manage it can often be obtained from commercial or government supported advisory agencies and specialists, such as accountants or lawyers. Additional information may come from the banks, libraries, television, radio, newspapers and chambers of commerce.

CASE STUDY

The California Flora Culture Growers Association

The California Flora Culture Growers Association was established in 1982 to help flower growers sell their products. The group aims to enable grower members to earn more income and control how the product is handled. The group was modelled from successful flower auction experience in the Netherlands.

An average day for the group begins as grower members deliver their cut flowers and greenery to the group collection centre at 04.00 am. At 06.00 am customers can inspect products and an auction begins 30 minutes later. The main customers for the group are retail florists, some of whom travel 150 kms in order to attend the auction.

The auction is handled electronically with buyers seated at desks. The auction operates the opposite to traditional auctions. When an item is introduced it is listed at a price slightly above the expected market price. The price gradually falls until someone bids. So there is only one bidder for each item, the one offering the highest price. The group handles about 600 transactions per hour. Bidding normally taking up to one and a half hours.

The group provides a number of tangible benefits for its 47 members. While most growers pay 25-30% commission to wholesalers the group charges members only 15%. Most wholesalers also discard unsold products. In contrast the group notifies members of unsold product and they have the opportunity to put the product up for auction another day or to pick it up. The group sells about 90% of what grower members deliver.

To join the group a grower must sell through the auction as a non-member for at least one year paying a commission rate of 25%. After a year, the grower can apply for membership. If the grower has sufficiently delivered the quality and amount of product per contract terms the grower is accepted. Members are required to invest a minimum of €5000 in the group, which may be paid over a period of 3 years.

Today the group has 20 employees five of whom work full time. While the majority of group members are in California the group also has members in Washington, Oregon, Hawaii and Florida. The group now owns a 50,000 sq metre building leasing space to 40 other tenants who are flower wholesalers.

MANAGEMENT EXERCISES

Assess your own personal strengths and weaknesses and then list all the opportunities and threats you are likely to face over the next five years (SWOT). Then conduct the same assessment for your organisation, farm or company.

Make a list of the key political, economic, social and technological factors (PEST) affecting fresh fruit and vegetable marketing in your region/country at the present time

In your training group list as many ideas you can that you feel will influence fresh fruit and vegetable marketing over the next 5 years. List all the ideas on the board (even the craziest ones). Then ask each member to vote for the 20% of the ones that they feel will make the largest difference

Prepare a list of all the things you personally want to have achieved by the end of the year. Once completed divide it into months and weeks. Decide how you will measure when you have achieved it or not.

Prepare a list of organisations able to provide advisory management support to growers and business organisations in your own country and the national legislative and taxation requirements