

Value-added business boards of directors tend to be very comfortable evaluating the operating activities of the business. This is because the background of many board members is oriented towards operations activities. Conversely, boards are often less comfortable discussing issues like leadership or fuzzy words like “strategy”. More time is often needed to discuss these topics with directors to ensure that they know their fiduciary responsibilities.

Many start-up value-added businesses are based on a commodity produced by farmers that are seeking to add value by further processing or providing additional services. The farmer understands the production of the commodity, its logistics, and probably has a good understanding of the value of the commodity. These are all good pieces of information that boards should be sharing with the CEO or general manager. They also need to think about devising a process to deliver the value they have created to the end user. This process is the company’s business strategy.

## How to Think About Strategy

A good principle is to boil down a concept into something one can easily understand. For example, strategy may be the additional value in terms of cents per bushel or pounds per hundredweight or some common denominator whose impact can be applied to a producer’s farming operation.

For example, a producer thinking about strategy, may focus on how to get a higher return per unit of production. The plans and actions taken by the producer for achieving the higher return is the producer’s strategy. So the producer has a choice of selling corn on the spot market in the fall or retaining and marketing it through livestock, ethanol, or some other process. The producer asks, if here is the price I can get by selling today and here is the price I can get by marketing through livestock or another organization. The ability to

generate additional value for the commodity is typically what the producer thinks of as strategy. How often can that additional return be realized and how persistent is the pattern? Do I always get 50 cents per bushel of corn above the market price after further processing occurs and does that 50 cents exist year after year? In a very simplistic way, this is how a producer evaluates strategy.

The board members of a value-added business may develop strategy in terms of the greatest long-term returns for the company’s investors or members. This may be in the form of a higher price paid for the member’s or investor’s commodity or a higher return on the member’s investment. However, the strategy development process for a value-added business is often very complex because the business organization is very complex. And it involves projections of returns and costs. If the organization, for example, is an ethanol plant, it may have as many as 30 employees. These employees require labor and health care benefits and these tend to increase the longer the plant is in operation which places a future burden on a manager to maintain margins. All these costs are part of that process.

## Evaluating Business Performance

Producer members or investors often see returns in a short-run context. So they may evaluate a value-added business’s performance over a one-year time period or less. However, the organization has the ability to generate returns in the future over an almost unlimited life. It is important to think about the long term context for these organizations.

Investors should evaluate performance over at least a two- or three-year period. In reality, the time horizon may be ten or 20 years. When looking over a long-term time horizon, we have many value-added businesses that are decades old. Examples are Sunkist Growers, Blue Diamond

Almond Growers, Ocean Spray Cranberries, CHS, and others, some of which are approaching 100 years of life. Yet most producers want to forget about the long-term and focus on the short-term.

Producer members or investors should be investing in the long-term. Examine the long-term value added to your farming operation over ten, 15, or 20 years. Keep in mind that the business may have a successful life over 100 years, like many of the value-added businesses we have today.

### Impact of Sarbanes-Oxley

The Sarbanes-Oxley (SOX) Act was passed by Congress in 2002. It applies to companies that sell securities and report to the Securities and Exchange Commission (SEC). In reality, many of the underpinnings of SOX are good business practices for many boards, even if the board does not have to report to the SEC. It should adhere to good tenets of the Sarbanes Oxley Act. One of the tenets is that boards should have an active role in strategy.

Traditionally, the CEO brought the strategy to the board and the board aligned itself with the strategy. However, it is important for new value-added business boards of directors to be involved in the strategic setting of the organization.

Although the board may not understand the strategic planning process and what it means, the CEO has the responsibility to ensure that the board is involved in strategy development and the strategic direction of the business. Even if the board is not actively involved in developing the actual strategic plans, it has a responsibility to think strategically, act strategically, and help develop the vision and mission of the organization.

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