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Money talk: How relations between farmers and advisors around financial management are shaped

Aniek Hilkens[a,*], Janet I. Reid[a], Laurens Klerkx[b], David I. Gray[a]

[a] School of Agriculture and Environment, Massey University, New Zealand
[b] Knowledge, Technology and Innovation Group, Wageningen University, the Netherlands

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ABSTRACT

The nature of interactions between farmers and advisors is the focus of a growing body of research. While many studies explore the potential role of advisors in facilitating farmers' practice change in practices related to agricultural production such as soil, water, pest and animal health management, studies that specifically investigate how advisors support farmers with financial management (FM) are limited. The contribution this paper makes is to identify who farmers' FM advisors are and to shed light on how farmer-advisor interactions about FM are shaped. Semi-structured interviews with both farmers and a range of advisors (bankers, accountants, farm management consultants, specialist financial advisors and industry funded advisors) were conducted. The main findings are that farm financial information and FM are considered to be sensitive topics and being good at FM is not central to farmers' identity (relative to e.g. production management). Due to the sensitivity and taboo around the topic and the low level of interest in FM, most farmers do not actively seek to acquire financial advice. Farmers most openly discuss FM with their banker and accountant and some seek advice from farm management consultants. Advice seeking from other advisors was limited. Theoretical implications are that FM as a topic of advice introduces unique dynamics to interactions between farmer and advisor, which highlights the importance of better consideration of taboo and sensitive topics in advisory interactions. Furthermore, the findings on how the bankers' authority impacts on the advisory relationship with farmers indicated that issues of power in view of such authoritative advisory relationships need to be better considered. To enhance effective provisioning on FM advice, policy could focus on improving the match between demand and supply, and help create awareness about the importance of discussing FM to reduce the sensitivity of the topic.

1. Introduction

In agriculture internationally, business management skills are now recognised to be of paramount importance besides technical craftsmanship (Knudson et al., 2004; Lans et al., 2013; McElwee, 2008; Nuthall, 2001, 2006; Phillipson et al., 2004; Pyysiäinen et al., 2006; Seuneke et al., 2013). Farm management scholars recognise financial management (FM) as a distinct field of farm management, as is production, marketing and human resource management (Boehlje and Eidman, 1984; Shadbolt and Bywater, 2005). Moreover, farmers' engagement in FM is deemed vital to farm business success in the farm management literature (Shadbolt and Gardner, 2005) and FM is broadly defined as involving ‘decisions with respect to the acquisition of funds and the use of those funds to acquire the services of various resources’ (Boehlje and Eidman, 1984). FM decisions are generally viewed to vary concerning impact and how frequent they need to be made. FM decisions range from less frequent, high impact decisions, e.g. succession planning of a farm business, investment in irrigation or the purchase of additional land to more frequent, low impact decisions, e.g. the development of a cash flow budget for the coming year buying fertiliser. It is argued that farmers' decision making capabilities are critical to the quality of their FM decisions and studies emphasize the importance of FM education for farmers in this domain (Jackson-Smith et al., 2004).

Farmers are shown to be supported in their farm management by advisors from different professions who then often form a network of advisors working on complementary topics (Klerkx and Proctor, 2013; Lans et al., 2013; Oreszczyn et al., 2010; Pato and Teixeira, 2016; Phillipson et al., 2004, 2016; Proctor et al., 2012). While a body of literature explores the role of this network of advisors in facilitating farmers' learning and/or practice change (e.g. Bergea et al., 2008; Ingram, 2008; Oreszczyn et al., 2010; Proctor et al., 2012; Sutherland

* Corresponding author. School of Agriculture and Environment, Massey University, Private Bag 11222, Palmerston North, 4442, New Zealand.
E-mail addresses: a.hilkens@massey.ac.nz (A. Hilkens), J.I.Reid@massey.ac.nz (J.I. Reid), laurens.klerkx@wur.nl (L. Klerkx), D.I.Gray@massey.ac.nz (D.I. Gray).

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et al., 2013), a limited number of studies specifically investigate interactions between farmers and their network of advisors about FM. Studies from agricultural finance touch on topics like farmers' motivations in choosing banks (Farley and Ellinger, 2007), the type (profession) of advisors farmers draw on for FM advice (Byrne et al., 2003) and the relationship between farmers' contact with an advisory organisation and farm financial decision making and performance (Hansen, 2015). These studies do not however analyse in-depth how farmers compose and engage with a network of advisors on FM, or how farmers receive FM advice from advisors. Hence, deeper insights on the nature of, or what shapes, farmer-advisor interactions about FM are lacking, and this is what this study aims to explore. Because of the limited existing in-depth research on the topic, the research reported in this paper has taken an inductive qualitative case study approach (Merriam, 1998). Given that we look at farmer-advisor interactions around FM, the research is not a specific enquiry on farmers' FM decision-making, but rather analyses who dairy farmers go to for FM advice and how these farmer-advisor interactions about FM are shaped in New Zealand or Aotearoa (by its Māori name).

The paper proceeds as follows. Literature on agricultural advisory networks and advisory encounters is reviewed in section 2. Given the inductive nature of the research, rather than creating hypotheses and subsequently testing these, the literature review provided a conceptual framework that was used to design the data collection protocol for the case study (Boeije, 2010). It also ensured the researchers had suitable theoretical sensitivity when analysing the data and reflecting on the nature of the findings (Boeije, 2010). After the literature review, the case context and research design are described, followed by the findings from the study. The paper ends with a discussion and conclusion section reflecting on the theoretical and practical implications from the study as well as the limitations of the research and recommendations for future studies.

2. Literature review: interpersonal factors in advisory interactions on financial management

Advisors are part of the wide group of actors (or 'web of influencers' (Oreszczyn et al., 2010)) argued to be influential in shaping farmers' practices. Advisors can be more or less dedicated to focusing solely on providing advice ('specialised advisors') or providing advice in addition to other goods or services ('embedded advisors') (Klerkx and Jansen, 2010). Increasingly emphasis is placed on the importance of advice being steered by the demands of farmers themselves, based on their needs and aspirations (Faure et al., 2012; Kilelu et al., 2014; Landini, 2016; Phillipson et al., 2016), where the farmer is seen as a client as opposed to a beneficiary. Farmers who employ an advisor on a fee for service basis will tend to receive advice tailored to their specific needs and circumstances. Whereas in instances that advice is funded by industry or public bodies it is likely to reflect more industry and public good goals rather than those of individual farmers. When advice is funded by industry or public bodies it is likely to represent topics they deem of importance, and a desire to change farmers' practices in view of public or industry goals. A desire to change farmers' practices can influence an advisor's interactions with farmers (Oreszczyn et al., 2010). This desired change can reflect a normative model of 'ideal behaviour' held by the advisor and their employer or the regulatory context they work in (Höckert and Ljung, 2013; Vrain and Lovett, 2016). This may lead to advisors taking a prescriptive position. Whereas it is argued that knowledge exchange is most likely to lead to learning in advisory interactions typified as 'facilitative' (Ingram, 2008). In these types of interactions, both parties equally value each other's input and knowledge and want to maintain the partnership. Counter to these types of interactions are those where mutual respect and learning does not exist and there is an imbalance between parties in terms of perceived input and expertise (Ingram, 2008).

The following sections will explore how the literature suggests that the level of trust in the relationship and the views, expectations and positions of farmers and advisors may influence farmer-advisor interactions about FM. Due to the scarcity of literature specific to advisory encounters on FM in agriculture, we draw on agricultural finance literature in general (e.g. Halabi and Carroll, 2015) and research that explores advisory encounters around finance in non-agricultural small and medium enterprises (SMEs) (Carey and Tanewski, 2016; Gill et al., 2006; Halabi et al., 2010; Klyver and Hindle, 2010; Stone, 2015; Stone and Lightbody, 2012) in this review. The SME literature mainly focuses on bank staff and accountants and to a lesser degree on specialist FM advisors. The literature pertinent to SMEs is used as the dairy farm businesses explored in this research conform to the definition of an SME[1] and in particular, they often go to the small side of the SME-spectrum (OECD, 2005).

2.1. How (farmer) clients' and advisors' positions influence their interactions

The SME centred literature suggests that advisors and clients differ in their views and understanding about FM (Dyer and Ross, 2007; Halabi et al., 2010). How advisors deal with this difference is argued to influence their interactions with clients including how effectively learning and practice change is facilitated (Benard et al., 2014; Höckert and Ljung, 2013). Differences may also exist in what advisors and clients expect in terms of process and outcomes in their interaction (Dyer and Ross, 2007; Nikolova et al., 2009). Learning, it is argued, is only effective when advisors and clients have similar expectations about process and outcome (Nikolova et al., 2009). A commonly understood language is also highlighted as important (Dyer and Ross, 2007; Halabi et al., 2010). Verbal and written accounting reports, accepted by accounting textbooks as helpful for informing clients' FM decision making, were found to be not understood by all clients (Halabi et al., 2010). This lack of understanding is argued likely to be why only few clients use the reports (Halabi and Carroll, 2015), a factor accountants are reported to recognise (Stone, 2015; Stone and Lightbody, 2012).

Advisor and client differences are identified also in the agricultural finance literature. Farm management consultants (Kemp et al., 2000) were aware of differences between their own and clients' understanding of FM and reported adapting written and verbal reports in line with clients' FM understanding. Differences in how farmers and bankers view the purpose of budgets are reported, also (Jakobsen, 2017). Bankers expected farmers to use budgets as a 'management control tool', whereas for farmers budgets were an 'entrance card for getting a loan' (Jakobsen, 2017).

Differences can extend also to how farmers and advisors give meaning to and value farming and farming practices including financial management (Burton et al., 2008; Warren et al., 2016). Burton (2004) as well as Jakobsen (2017) found that farmers studied measured success by the amount and quality of production, and not (or to a lesser extent) in financial terms. Farmers were found also by Jakobsen (2017) to choose advisors whose views and advice aligned with the farmer's plans and approach and changed advisors if they did not. One point of difference highlighted was advisors being critical about the farmer not using financial measures of success (Jakobsen, 2017).

[1] The definition of SME adopted in this research, is the one brought forward by OECD, 2005. OECD SME and Entrepreneurship Outlook: 2005 Edition. OECD, Paris.: *'Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees'.*