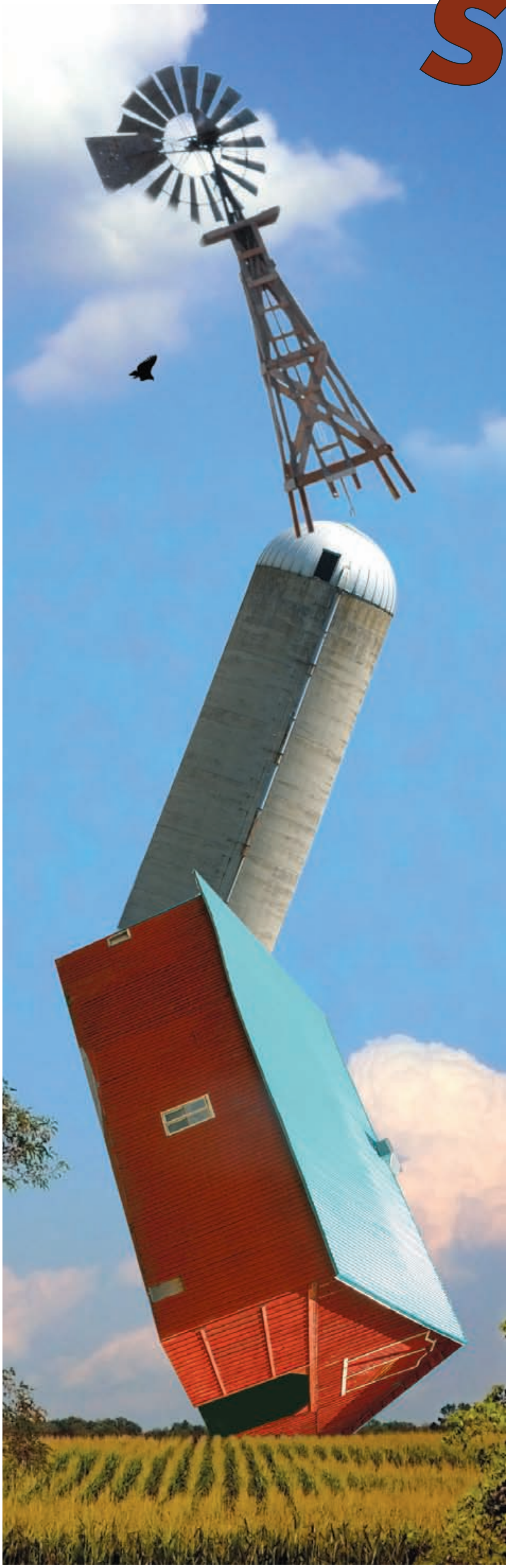

Seeking Balance

A how-to approach toward improved ranch management and greater sustainability.

by ***Eric Grant***

Before you read this article, grab a pencil and a notepad, and find a comfortable place to sit down.

This is an exercise in business planning, or the creation of a balanced scorecard. It could very well start your business down a new path to greater sustainability and increased happiness for you, your family and your employees.

But before we really begin the process, here's a little background information about balanced scorecards, which is the document you will be completing.

"The balanced scorecard allows you to pull all of your ranch's information on to one sheet, and allows you to cull those things that are extraneous," says Barry Dunn, executive director and assistant professor for the King Ranch Institute for Ranch Management, Texas A&M University.

The "balanced" approach works well because it forces you to embrace ranch management from a holistic standpoint, which can open your eyes to understanding the interconnections between all the various facets of your business and the effects they have on each other.

"There's a tendency in ranching for people to manage each section of their business as if they were silos," Dunn says. "When you think about managing pastures, livestock or crops, generally people see those three things separately, as silos. But managing them separately can cause consternation within a business."

Instead, Dunn advises, you need to manage them cross-functionally.

"Managing with a silo mentality is disastrous for your long-term sustainability," Dunn says. "But we've been brought up this way. Your management can't be just about each silo. You need to think about your operation cross-functionally and strive for balance within all the various aspects of your ranch."

So here goes. Prepare to jot a few things down.

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Step 1: Define vision

Think about where you want your business to be in the future, and ponder the strategies you will need to undertake to make that future a reality.

This begins by writing a vision statement for your business. This is where you brew up a pot of coffee and call in your spouse, siblings, kids or key managers — really anyone who works with you to manage the ranch — to participate in this process.

"A vision statement defines what your business aims to achieve in the future," Dunn says. "It's not just what you want to accomplish, but why you want to accomplish it."

Dunn suggests it is also important to understand that a vision statement is different from a mission statement because it focuses on the future of the business.

"A mission statement summarizes what the current business is about and why. The balanced scorecard aims for continual improvement in future outcomes, it uses only the vision statement and omits the mission statement," Dunn says.

A vision statement should contain three key components:

- ► First, write a sentence or two that states your reasons for being in business.
- ► Second, write a sentence or two that describes your vision for the future, and what you believe your business would be like after it achieves its goals.
- ► Finally, jot down a sentence that states how your business serves its stakeholders. Stakeholders might include owners, employees, customers, community and society as a whole.

"Everyone involved in management should contribute to the vision and strategic plan," Dunn says. "Reaching a shared vision for the business may require some time to agree on the driving forces of the business, the values that matter, and the effort necessary to make it work."

The most critical thing to a vision statement is that once it's drafted, it's shared with everyone in the business from top to bottom, Dunn adds. Make a single-page copy, and distribute it to your family, hang it on the bathroom walls, and post it in your office.

"It's not created by everyone, but it has to be owned by everyone," Dunn says. "It's the single-most difficult thing to accomplish in ranching. It's a futuristic look that you're trying to define. This process is about moving forward."

Step 2: Set strategies

Once you've drafted your vision statement, develop a set of strategies that will help your business achieve its vision.

"Strategies may involve major change and restructuring in your business, such as adding a native grass seed harvest enterprise to a cow-calf entity," Dunn says. "Or your strategies can be just small steps to fine-tune existing strategies, such as enhancing genetic selection to improve marketability of bred heifers."

Dunn suggests that you keep your strategies limited, manageable and achievable.

"Choosing a breed or a composite is a tactical, not strategic, decision," Dunn says. "Choosing to produce for a branded beef program that has a breed requirement is strategic. Choosing a specific implant is tactical. Choosing a program that is all-natural is strategic. You need to understand the difference."

Step 3: Identify perspectives

Perspectives, or basic components of your ranching enterprise, are critical to accomplishing your vision statement.

On the same sheet of paper where you've written down your vision statement and strategies, jot down the six primary perspectives of most ranches: financial, lifestyle, customers, livestock production, natural resources, and learning and growth. You may have more perspectives depending on your ranch. Be sure to leave some space on the paper between each perspective.

"No single perspective or resource should be overemphasized compared to other strategies," Dunn says. "Taken together, these components offer a holistic view of business health. Balance between them is achieved when all perspectives are considered equally."

Step 4: Metrics

Once you've listed your perspectives, the next step is to identify "metrics," which will allow you to measure your progress in each of the perspectives.

Metrics should be tied to key strategies that are designed to help achieve the overall vision. They should also be measurable, relevant to the operation and easy to document.

Your metrics should include both lagging indicators and leading indicators.

Lagging indicators measure past performance; they are things you cannot change. Leading indicators are predictors of future performance, and shed light on opportunities for you to capitalize on.

"We have plenty of measurements of the past, but we can't change the past," Dunn says. "So we need our measurements to focus on predicting the future, so we can react to them."

For instance, "pounds weaned per cow exposed" is a lagging indicator because it's already happened. Body condition scores of cows is a leading indicator because it's a predictor of fertility for next year.

Dunn offers the following examples as useful, almost universal metrics that almost all ranchers can plug into their balanced worksheet:

► **Learning and growth:** Are you taking classes? Did you return to a college or institute for additional education? Did you tour someone else's ranch? Did you attend an Extension meeting? "If you answered yes, then you have a measurable response that shows you are meeting this goal," Dunn says.

"Education has an intrinsic value to people and society," he adds. "Morale and

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The balanced scorecard

Developed by Robert Kaplan and David Norton of Harvard Business School, the balanced scorecard enables ranch managers to see things that need to be measured to balance different and competing parts of their ranches.

For example, rather than analyzing financial records alone, which are only capable of telling past events, this approach also takes into account factors such as customer relationships, ranch processes and investment in family members and employees' learning and growth. All can affect future business success.

Central to the effectiveness of the balanced scorecard is viewing your ranch from multiple perspectives, and evaluating outcomes relative to each of those perspectives. By doing so, you can build a stronger base for your future sustainability.

The balanced scorecard addresses balance between short- and long-term objectives, financial and nonfinancial matters, lagging and leading indicators, and external and internal performance.

A properly prepared balanced scorecard should fit on a single page. This minimizes information overload and forces you to focus on the business elements that are most critical.

Editor's Note: *For more about applying the balanced scorecard approach, visit* http://agbiopubs.sdstate.edu/articles/EC922.pdf.

performance tend to be higher in a business that values individual education."

► **Livestock:** Is your goal a 93% calf crop? Is your goal to have your cows in a BCS of 5 or better going into the winter? Did you increase pounds weaned per cow exposed? Did you increase pregnancy percentages or percent of calves born in the first 21 days?

► **Customer:** Have we met the customer's needs? Do we have repeat customers? Is there any involvement in retained ownership and/or marketing alliances? Do we have a quality-assurance system on the ranch?

Whether we have repeat customers hasn't been measured well over the years, Dunn adds, but it is a practical measurement and relatively easy to measure. As an example of metrics, involvement in retained ownership and/or marketing alliances allows information to be passed up and down the value chain, and allows the manager to identify if there are repeat customers and how much customer inquiry is produced.

► **Financial:** Examples of metrics for financial perspectives include rate of return on assets, determining operating profit margin or net income, or calculating your ranch's cash on hand after it has paid all its expenses or reinvested capital into ranch improvements.

► **Natural resources:** Have you determined the carrying capacity of your range by calculating appropriate stocking rates? Do you have photo-point monitoring for seeing long-term effects of grazing on range conditions? Do you conduct wildlife inventories of desirable species? Do you monitor water quality and/or residual forage?

Your future depends on your management of natural resources under your care, so it's critical that you keep a close eye on this area.

► **Lifestyle:** Are you, your family and your employees happy and healthy? Are you, your family and employees satisfied?

"It's foundational that you continue to be lifelong learners to be happy, or you don't grow," Dunn says.

Step 5: Evaluate performance

If you've completed your balanced scorecard, and chances are it's taken many weeks to do so, you've probably come to realize that this process is never-ending.

Dunn says it's critical that you review your balanced scorecard on a regular basis, and that you use it as part of a ranch planning and management document. As part of your regular reviews, you should meet with family members and employees to provide feedback to each other on each of the perspectives.

"The review process should be permanently integrated into your operation as a single, continuous evaluation with neither a beginning nor an end," Dunn says. "Weekly or monthly reviews are appropriate for individual perspectives, while quarterly and annual reviews should focus more heavily on strategic issues, goal setting and resource allocation."

What makes the balanced scorecard unique is that it brings together in a single management report many seemingly disparate elements of a business's competitive agenda.

"The scorecard lets managers see whether improvement in one area may have been achieved at the expense of another," Dunn says. "It represents a valuable measurement and management tool for ranch businesses as they prepare for the future. It enables the ranch to not only put its financial and nonfinancial goals in perspective, but also to better balance the difference between short-term and long-term sustainability."

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