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THE FINANCIAL MANAGEMENT SYSTEMS USED
ON THREE IMPORTANT FARM TYPES IN
NEW ZEALAND.

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ABSTRACT

Effective financial management is central to long-term profitability on New Zealand's farms, especially in the setting of a market-led economy. While this view is widely accepted and advocated, detailed knowledge of the financial management systems used by farmers is not available. This lack of knowledge limits the opportunities to specify improvements to this increasingly important dimension of farm management.

This study reports the findings of surveys made in 1988 to investigate the financial management systems used by farmers on three important farm types in New Zealand. Surveys were made of South Taranaki dairy farmers, Taihape sheep and beef farmers and orchardists on the Heretaunga Plains. Over seventy individual interviews with farmers were completed. These were complemented with mail surveys of a further ninety farmers. The financial management systems in the three study areas are compared and contrasted using the survey data. These systems are also appraised relative to models of financial management which are developed from basic principles.

Important differences are discerned between the financial management systems used by farmers in the dairy, sheep and beef and pipfruit industries. Although half of the surveyed dairy farmers complete a financial plan, only a small proportion of these attempt to reconcile the outcome of farming events with their plans. The situation in the sheep and beef industries is similar. However, a greater proportion of farmers in these industries completes the planning function than in the dairy industry. This is likely to reflect farmers' responses to the removal of publicly funded support for their enterprises and the limited extent of co-operative activity of producers in both the meat and wool industries relative to the dairy industry. The majority of orchardists surveyed use formal financial planning methods and effect a greater degree of control over their operations than do farmers in the other industries surveyed. Orchardists achieve this by updating their budgets both more frequently and regularly than do dairy and sheep and beef farmers. Detailed cross-tabulations of key aspects of the financial management systems on the surveyed farms are reported. Cluster analysis techniques are used to classify the financial management systems of the farmers on each of the three farm types surveyed. The attributes of farmers in the three clusters derived in the analysis are described. It is concluded that significant opportunities exist to improve the financial management systems used by New Zealand's farmers, at least in the three industries surveyed. Practicable means of achieving these improvements are recommended.

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