



# PROCEEDINGS OF PRAGMATIC CONSTRUCTIVISM

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## When prices for land lost its grounding and management accounting was set-aside

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### Abstract

This study addresses the current situation in the Danish agricultural sector when prices for land lost its grounding and management accounting was set-aside.

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## Agenda

- Some background information on the Danish Agricultural sector
- Objective and research questions
- Methodology
- Findings and implications

## Some background information

- Historically low profit industry.
- The industry is capital intensive, huge investments in land, buildings and live stock compared to present turnover.
- Asset turnover 0.31 in 1991, 0.09 in 2009, for an average full-time holding. Manufacturing companies in Denmark AT > 1.0
- Easy access to debt financing:
  - Up to 70 percent financing by mortgage banks
  - Nearly the rest financed by banks
  - For young farmers equity often < 0 within the first year

## Some accounting information from an "average" farm holding

	2003	2004	2005	2006	2007	2008	2009
	----- DKK -----						
EBIT from agricultural activities	573.285	652.464	740.221	986.508	819.150	816.855	403.570
Profit from agricultural activities before tax	86.157	168.832	270.801	448.556	110.711	(415.902)	(531.579)
Profit from all activities before tax	185.687	332.393	426.925	624.865	293.804	(307.768)	(438.802)
Agricultural assets	10.565.389	12.422.371	14.695.617	20.399.852	24.027.902	28.041.511	27.894.697
Value of leased in agricultural assets	2.982.327	3.416.506	2.807.004	4.123.591	5.106.393	5.458.610	6.056.874
Equity	4.039.299	5.480.171	6.928.503	11.721.880	13.221.352	14.496.011	10.011.662
	----- % -----						
Return on agricultural assets	4,44	4,44	4,69	3,05	2,61	1,20	
Return on equity	1,75	1,72	1,68	0,59	-0,56	-0,90	
Market interest rate <sup>a)</sup>	3,40	2,99	3,60	4,22	4,14	3,05	

## Development in real prices

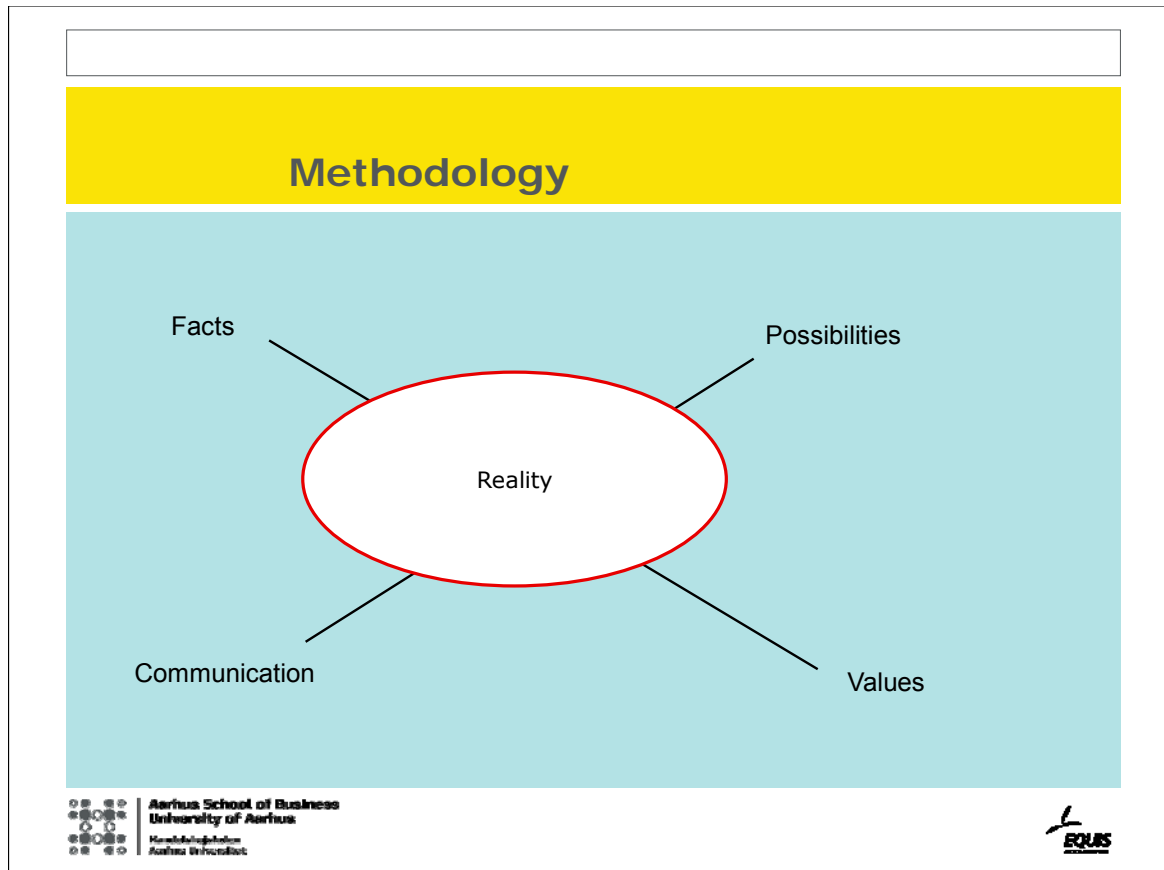


## Objective and research questions

- Economic rationale cannot justify the price increases seen on the aggregated level within the agricultural sector.
- An entire sector seems to be in u-topos
- The objective of this paper is to expose causes that have led to the economic bobble in the Danish agricultural sector and left this industry in a huge crisis.
- Research questions:
  - What are the farmers' motives for engaging in investments that does not generate an economic profit?
  - What role have the agricultural advisors taken during the decision processes that have led to the present situation?
  - Why have financial institutions financed investments in the agricultural sector that is obviously unprofitable?

## Methodology

- The study is based on a qualitative case study that includes semi structured interviews with:
  - bank managers and staff in agriculture departments in two banks located in two different areas of Denmark.
  - In one of these areas three farmers were interviewed individually, and in the other area 8 farmers participated in a focus group interview.
  - In each of the two areas one agricultural consultant was also interviewed.
- All interviews was recorded and transcribed for further analysis.
- The data is analysed by using the pragmatic constructivist framework



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- The section is titled "Facts" in a yellow header. Below the header is a light blue background containing a bulleted list of five points. At the bottom left, there is a logo for Aarhus School of Business, University of Aarhus, with the text "Højskolelaboratoriet Aarhus Universitet" below it. At the bottom right, there is the EQUIS accreditation logo.
- They are extremely focussed on the concrete phenomena of their business
  - The phenomena are made manageable via non-financial performance measures
  - The credit draft account is a central yardstick for financial control.
  - Other financial performance measures are not used in the managerial decision process, except for communication with banks.
  - The coupling between accounting numbers and concrete phenomena are found too abstract

## Values

- Being a farmer is a deep rooted part of their identity and self-perception
- They enjoy showing you their holdings and possessions, but they would never dream of revealing last years profit
- They are extreme optimists
- They have a true believe in economies of scale and general increases in efficiency as the way to solve decreasing terms of trade
- What counts is size – to grow is the most important success factor
- They run “cigar-box” financial control if there is an opportunity to grow and it can be financed, then they go for it.

## Communication

- Three main groups of actors:
  - Financial institutions
  - Farmer’s association
  - Farm consultants (owned by the farmer’s associations)
- The remaining society is a hindrance – they ask too many questions that are difficult to answer’. Relatively low degree of communication

## Communication

- Communication with Financial institutions are made via budgets and annual accounts
- Unequal communication, the farmer delivers information, that is often produced by his advisor, and the bank decides for further lending on that basis.
- If the bank says go then the farmers perceives this as a confirmation of the rightness in the decision
- Until 2008 banks never said no → growth was beyond dispute
- Such practice was by the farmers perceived as an accept and a reward for setting management accounting aside.

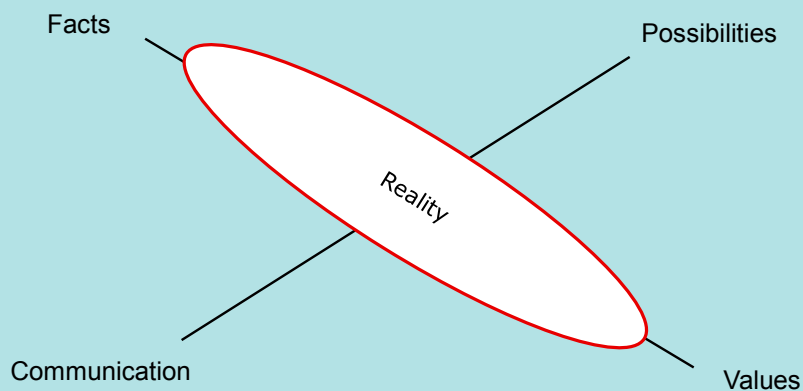
## Communication

- Agricultural advisors work are employed by the farmers via the farmers' association.
- As a result of structural changes, the advisors has become profit centres.
- The single farmer is now the customer who should be given what he asks for – no critical voice.
- The farmers have low trust in the advisors. Therefore the advisors are mainly used for administrative tasks.

## Possibilities

- The farmers see growth in volume as the only possibility to develop their business
- Their main focus on non-performance indicators supports this strategy: more milk per cow, more piglets per sow, etc. (at any price)
- And when possible: more animals, more land, etc. (at any price)
- Since accounting logic is set-aside there is no attention pointed at alternatives.
- Advisors are reduced to clerks
- The surrounding society is out of reach, they only talk about environmental care and organic farming

## Implications





## Implications

- Based on this extreme case !
- Non-financial performance measures has one directional attention: more is better or less is better.
  - Good for revenue or cost
  - But no automatic focus on profit.
  - Thereby the actions of actors might harm the overall performance of the company
- The logic of economics and accounting is cost vs. Benefits
  - Automatic balanced focus.
  - But on a more abstract level because actions of actors have been translated into monetary units

## Questions and comments