

RIGHT RISK NEWS

Risk Management Strategies In Agriculture

DATES TO REMEMBER

Forage Insurance
- September 30th

Acres Reporting
- November 15th

RI-PRF Coverage
December 1st, 2021 for 2022
crop year coverage

For more information see:
<https://www.rma.usda.gov>
<https://www.fsa.usda.gov>

The Greek word *strategos* describes a military general, or someone who commands a stratos or army. Put another way, “A strategy should outline actions that utilize the resources available or provide a means of getting needed resources in order to accomplish a specific goal” (Gates, 1998). In popular usage, strategy is often used to describe the means by which a person/business plans to use resources to reach the desired ends. In this way, strategy implies: 1. a goal, 2. resources, and 3. a method or approach for action.

A strategy is a maneuver designed to deceive or surprise an enemy in military settings. It is an approach



directed at winning. As such, it requires all levels of management and labor to be aligned with the general strategy to ensure success. The desired outcome, the focus of the individual or business activities, constitutes the risk management plan in mind: a step-by-step approach used to reach that desired outcome. Moving toward the desired outcome in a stepwise manner implies some sort of order; some activities necessarily come first and others follow.

Policies and Plans

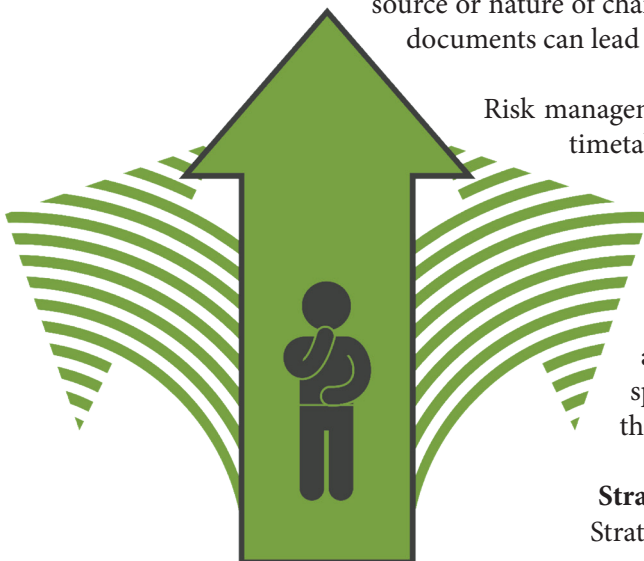
Planning provides a means for communicating the common vision, goals and objectives for individuals or a business. With this common understanding, a plan allows all the people involved to react in a similar way to changes in the environment. Change may be either positive or negative and may be either anticipated or unanticipated. Regardless of the source or nature of change, a well-orchestrated planning process and resulting planning documents can lead to a more resilient business.

Risk management plans are concerned with describing the specific steps and timetable required for reaching the goals. Risk planning deals with the how and when of the process. Sometimes this phase is called action planning, programming, or implementation. Whatever the term, it refers to the outline of activities that must be accomplished in order to achieve the risk goals and the timing of these activities over the near term. Risk plans often include a listing of the action steps, a timeline for completion, who is responsible for completion of each step and some indicator to show the step has been completed.

Strategies for Managing Risk in Agriculture

Strategies for managing risk or the consequences of a negative event,

How Much Risk is Right for You?



should it occur, vary by source of risk and level of protection already in place. In general, the options range from avoiding the risky practice entirely (minimizing the risk) to accepting the risk (self-insuring). Between these two extremes are several possibilities for managing the risk to a more acceptable level by: reducing the risk, transferring the risk or increasing the capacity to bear the risk.



Evaluating Decisions

A decision can be described as the outcome of a process that selects a preferred option or a course of action. In fact, “Decision making is one of the basic cognitive processes of human behavior by which a preferred option or a course of actions is chosen from among a set of alternatives based on certain criteria” (Wang and Ruhe. 2007). Viewed through a different lens, decisions are the process by which strategy is implemented. Decisions are the basic unit of choice exercised by management to move the business forward.

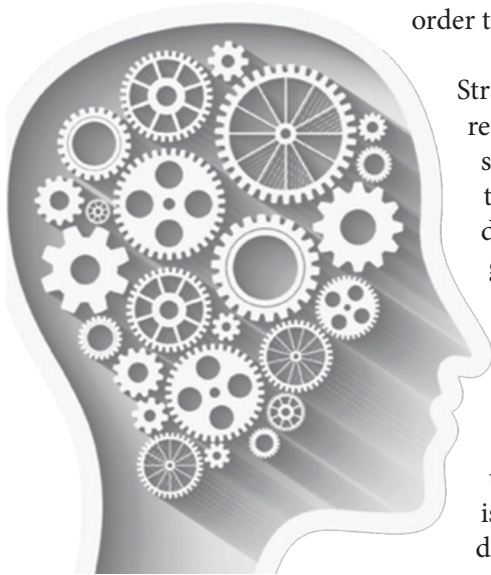
Several points are raised by the previous description:

- First, where a decision is about moving forward, this implies that the direction forward has previously been selected. In other words, management has chosen a direction by some process of weighing and considering available alternatives. Of course, the act of choosing direction is also a decision.
- Second, from the first point, not all decisions are equal in nature. Some are of a higher, strategic nature, while others are concerned with implementation or day-to-day carrying-out of the strategy.
- Third, all types of decisions involve taking management action after considering the alternatives, how it will be carried out, and when it will be completed (Afuah. 2004).

Evaluating a specific decision is best done by considering how it does or does not contribute to the success of the strategy it is intended to support. Obviously, some decisions are made without conscious consideration of which strategy they may be tied to.

What Is a Decision? What Is a Strategy?

Decisions, as outlined previously, are the outcome of a process that selects a preferred option or a course of actions. The choice is normally made from among many alternatives, some of which may lead to the same outcome. However, each alternative has its own unique set of resource requirements and management oversight needed in order to reach the desired result.



Strategies, as described earlier, are the means by which the business intends to use resources to reach the ends they desire. Strategies include one or more goals, resources, and a method or approach for action. Beyond this, strategies are typically thought of as taking some time to accomplish. As such, strategies require multiple decision points to bring them to conclusion. These decision points are necessarily guided by the strategies selected to reach the goals outlined.

For example, to transition from a corn-wheat crop rotation to a mixed-farm operation that includes fresh vegetables, a roadside stand, and livestock enterprises would require many management changes, several new strategies, and numerous decision points along the way. By comparison, selecting between the option of delivering wheat from bin #2 or bin #3 for delivery to the elevator this week is a straight-forward decision and requires little time to address, with no subsequent decision points to follow.

Making the Selection

Making a choice is the point in the decision process where the alternatives are weighed and comparisons are considered regarding how well the option would achieve the stated goals. Many assessments are based purely on the financial consequences. However, non-financial resource and management demands must also be taken into account. Alternative strategies



may not only require more (or less) resources and management time, but may also differ in terms of the timing of those demands.

When choosing between risk management strategies, one should carefully consider what the choice will mean for the resulting distribution of outcomes over time. What is the desired outcome from following the strategy? How long will it take the strategy to demonstrate whether it is effective or not? How do the costs of each alternative compare where the strategy may require transferring risk?

To repeat, the selection process should be guided by how well the alternative will achieve the desired outcome. Consideration should also be given to the tradeoff between costs, in terms of resources and management time required, and the estimated benefits.

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