

Risk Management

Managing Your Farm and Ranch Operation

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The term “management” means different things to different people. Management might be defined as making decisions. Good management could be defined as making the right decisions. Regardless of definition, management takes time and work. It is just as critical to your success as planting, growing, harvesting and marketing the crop.

This publication discusses the characteristics of management and managers. Activities in the boxes can help you work on the science and art of management.

You might think of management as a term that applies to big businesses and large farms, but not to you. The fact is, all producers manage their farms or ranches, either actively or by neglecting to make important decisions. Even inaction is a decision.

Characteristics of a Good Manager

Action:

Think about people you respect or admire for making good decisions. What makes these people good managers? List the characteristics you think good managers have to help them make the right decisions.

Look carefully at the list you created. Do the characteristics have more to do with actions, mental processes or physical work? These characteristics are important. How do these various characteristics relate to the level of management responsibilities and resources available to make **right** decisions?

Management is doing something with your resources. Management is getting things done with the finances, people, equipment and land resources available. Good managers know how to combine these resources for the right outcome. Good managers may not always be the best at doing the individual technical tasks, but they look at the total operation and know how to direct and delegate to accomplish the right end result.

A good manager is a combination of coach, teacher, financier, engineer, architect and record keeper. Good managers have the people skills necessary to inspire those they supervise to put forth the effort to accomplish desired goals. Good managers know how to make sure their employees have the knowledge, skills and tools to get the task done. Good managers recognize their mistakes, are accountable for their actions, and are willing to change their thinking based on better information. Good managers continually analyze and evaluate situations and make the best decisions they can with the most current information available.

They continue to learn how to combine their available resources to achieve their goals.

Functions of Management

Management may also be thought of as a set of functions that result in decisions. These five functions are:

1. Planning—a mental or thinking process to achieve something
2. Organizing—a framework to support the planning



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3. Controlling—action to measure success or failure
 4. Staffing—the people part
 5. Directing—coaching that requires good communication
- Planning is something everyone does. We usually think of it as setting goals for ourselves, and then working out a systematic process or set of actions to achieve those goals. We associate terms such as purpose, vision, mission, strategy, goal, objective and task with planning. Planning also involves putting down on paper the details and processes necessary to meet goals and objectives.
 - Organizing can be thought of as the process of identifying or establishing jobs and positions, chain of command, channels of communication, and delegation of managerial authority within the organization. Organizing is also inventorying physical and financial resources, identifying skills and talents among employees, and physically arraying these resources for efficient use. Organizing and planning are closely related in the firm's management.

If goals are to be met, then the results have to be measured. If processes are not working and goals are being missed, the problems have to be identified so corrective action can be taken. The controlling function is this process of measuring and identifying a firm's progress. The controlling process involves developing measures for assessing progress.

Staffing and directing are personnel management. For example, cows provide the product, but people are necessary to ensure that the cows provide the product and the product gets to the customer. Staffing is the process of putting people in jobs and positions. Staffing involves identifying the strengths and weaknesses of each employee and matching jobs with the people who can best perform them. Staffing involves the hiring, training and firing of employees, as

well as attracting prospective employees by creating a good working environment.

- Directing is in many respects coaching, and it involves communicating with employees so they know what is expected of them. Directing is the process of creating within each employee the sense of well-being and satisfaction with the job. Directing involves discipline to keep the employee on the path that helps the business meet its goals, and educating the employee so the firm's mission and goals become those of the employee. Directing includes retraining, providing benefits, and doing those things that set a path or direction for the employee to meet his or her own goals.

The Planning Function

Planning begins with a challenge or desire—a vision. Before any business comes into existence, someone has a vision. Planning is continuous. Planning may be imposed by others if a manager does not deliberately plan.

The Vision

Vision is what you see in your mind's eye; it's what you hope and strive for as the course is set for your business. You can think of your vision as your mind's image or dream of something hoped for or desired.

The planning process may begin with the vision you have for your life, but by taking action to achieve that vision you begin the physical process of planning. Action is the key to planning. Plans and visions are nothing without action to make them a reality.

Action Transforms a Vision into a Mission

Action may not always be physical work; you must spend time thinking about how to put your plans into action to make your business successful. The action part of planning involves

- developing a mission,
- setting goals,
- determining strategies, and
- implementing the plan.

Sooner or later action means putting something down on paper. Action is critical to planning because it requires the manager to make decisions. To carry out your vision, you must define a mission statement. The mission makes the vision a potential and even a continuing action. For example, if you are a dairy producer and your vision is economic and financial security, then your mission statement might be:

To provide economic and financial security for my family by producing and marketing high quality milk.

The vision is to have economic and financial security for your family. You take action when you decide how you are going to achieve economic and financial security. The vision is to be achieved by *producing and marketing high quality milk*.

Action:

Write a mission statement for your farm or ranch business. Think first about the vision you have for your business, then make an action statement out of it. In other words, make it more specific. What goals must be met? What changes (strategies) must be implemented? What is the first decision (or action) you must make?

Making a Mission Statement a Reality with a Strategy

A strategy (or action-decision plan) is necessary to accomplishing your mission. Strategies, some specific and some general, are plans for achieving your goals and your vision. Strategies are developed at all levels of the business and are dependent on the resources available. Using the mission statement from above, suppose you: 1) have 250 acres of good quality year-round pasture; 2) are within 2 miles of a river bottom where high quality corn silage can be grown and which you can buy or rent at a fair price; and 3) have a good quality herd.

An example strategy might be to use a modified intensive grazing system, with a purchased concentrate and a corn silage ration you grow and feed in a portable feeder line. Your strategic planning can begin by determining what re-

sources you have available to carry through with your strategies.

As a manager, you must develop economic, operational and business strategies to minimize costs and maximize profits. Decisions include what crops to grow, what tillage practices to use, how to handle financial planning, and which risk management strategies to use. In fact, various risk management strategies will be included in each step of the strategy. If the strategy is the road map to get from point A to point B, the goals are the towns you go through pursuing your mission. Effective goals have five characteristics. They are 1) **Simple**, 2) **Measurable**, 3) **Attainable**, 4) **Rewarding**, and 5) **Timely**. SMART goals need to be easy to understand, straightforward, not complicated, and not tedious. They must be measured and understood easily so you can evaluate success. Goals should not be so low or easy to attain that little or no effort is necessary to reach them. On the other hand, goals should not be so hard to attain that they cannot be reached. Attaining a goal should be challenging and rewarding. It is also critical to establish a time line for attaining goals.

Here is an example goal: To market milk with an average somatic cell count of less than 100,000 by May 1, 2012. Is this goal a SMART goal? It depends. Suppose the day you set the goal is April 15, 2011 and the current cell count averages 150,000. Suppose you get a 10-cent per cwt premium for every 50,000 you lower the cell count. This goal is simple, measurable, has a time element, and seems attainable and rewarding. But what if it costs \$1.00 per cwt to lower the cell count by 50,000? Is the goal a SMART goal? Would you change your mind if it cost only 9.5 cents per cwt to attain the goal?

Summary

By now you will have noticed that management is not an exact science. However, information from research and results from businesses comparable to yours can give you helpful guide-

lines and benchmarks for taking action and measuring success. All of the plans, visions, strategies and mission statements in the world are worthless without action.

For a discussion of the remaining management functions—organizing, controlling, staffing and directing—see E-521, “Farm and Ranch Business Management Functions.”

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