

RIGHTRISK NEWS

Strategic Risk Management

Making decisions is more difficult when there is uncertainty about markets, production, or finances. Agricultural producers make more risky decisions than most business owners, but studies show that most of us don't have a strategic plan to manage that risk. Having a solid plan to manage risks can soften the impact of lower yields, higher costs, or lower prices.

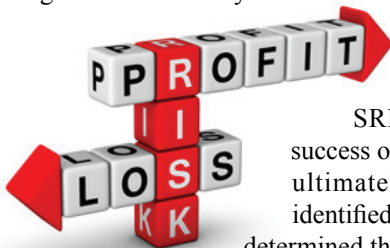
The RightRisk Strategic Risk Management Process (SRMP) is a 10-step risk management program with 10 specific steps for the management of risk in any operation:



Step 1: Determining Your Financial Health The Strategic Phase of the SRMP is about the big picture. The first step is to determine your financial health. Financial resources may be in better shape in some areas and less so in others. An example is strong net worth, but weak cash flow. In general, healthy performance in each area of interest leads to a healthy business that is better able to withstand the changes in the economy and business environment.

Step 2: Finding Your Ability and Preference to Tolerate Risk Some people avoid risks, while others confront it head on. Since every investment involves risk, it is important to know how risk tolerant we are. Risk tolerance is the amount of risk you are willing to take on to achieve an investment goal. You can have three different attitudes towards risk. Individuals who highly dislike taking risks are known as *risk averse*. An individual is said to be *risk-neutral* if she cares only about the expected payoff of an investment and not the risk she has to take to achieve her investment goal. An individual who actively engages in risky investments is referred to as *risk-seeking*.

Step 3: Goal Setting for Strategic Risk Management Having clear, well-defined goals can help focus energy and effort. While this may not guarantee success, it does make it more likely. Doing the right things right is the key to getting to where you want to go. The strategic risk-management process, describes a method of managing the farm or ranch operation as a whole, rather than as separate, unrelated parts. It provides a step-by-step method for working within the framework of information overload and multitude of risks ag managers face on a daily basis.



Step 4: How to Determine and Prioritize Your Risk The first step in the Tactical Phase of the SRMP is to determine and prioritize the risks your operation faces. This step is critical to the success of the entire process. This step enables managers to identify, quantify, organize and prioritize risks, ultimately leading to discovering what risks threaten the operation. After the sources of risk are identified, it is important to prioritize the risks with respect to the particular operation. Once a producer has determined the sources and priority of the risks, emphasis can be given to the risks that are highest and that can be highly influenced by the operation.

Step 5: Identify Risk Management Alternatives Once the risks are well understood, we can begin to consider what options are available to manage them. There are four basic ways to manage or control risks: 1) Some people just try to *AVOID* risk wherever possible. While it is understandable that people want to avoid risks, extreme risk avoidance can have extreme impacts, like significant losses in income potential and even introducing the decision maker to new and potentially even greater risks. 2) Someone that does not like risk might want to *TRANSFER* his or her risks to someone else. This is often a better option than risk avoidance if there is an appropriate market to transfer the risk to. 3) Other individuals may want to *ASSUME* or retain risk. The motivation might be that there is usually a positive correlation between risk and return. Individuals that take on more risks, though they have more ups and downs in their lives, make more money in the end. 4) Of course, whether you wish to retain risk or avoid it, everyone wants to *REDUCE* risk to the extent possible.

DATES TO REMEMBER

Spring crop acreage reporting deadline
- July 15

Margin Protection Program Dairy (MPP-D)
- 2017 crop year
July 15th-Sept. 30th

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2016 for 2017 crop year coverage

Acreage Reporting:
- November 15th

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

How Much Risk is Right for You?

HIGHLIGHTED TOOLS

Risk Navigator is a set of over 20 tools developed to accompany and compliment the Strategic Risk Management Process outlined in the book, *Applied Risk Management in Agriculture*. The Risk Navigator Toolbox helps the user apply the Strategic, Tactical, and Operational Phases of the SRMP and its 10 steps to their own operation. Various electronic calculators, worksheets, and other planning aids help users to not only plan for the risk in their future, but also evaluate alternative risk controls and strategies for managing that risk.

The academic professionals at RightRisk developed the *Risk Navigator Toolbox* and are making the tools available free of charge. The toolbox includes application of several tools in solving real-world risk problems.



To access the RN Toolbox see: <http://RightRisk.org> > Resources > Risk Management Tools > *Risk Navigator Toolbox*

STRATEGIC RISK MANAGEMENT CONTINUED FROM PG. 1

Step 6: Determine Likelihood of Risk Outcomes Step 6, covers calculating the probability of each possible outcome for the alternative management actions under consideration. Few people understand probabilities really well. Fortunately, there are some well-established concepts and tools available to aid the decision maker in putting this all together. Doing so can help make your risk management decisions better able to stand the test of time.

Step 7: Ranking Your Management Alternatives The last step in the Tactical Phase to determine a risk management plan. Developing management plans that include risk can help you to adjust for uncertainty and help develop a farm management plan that is tailored for your level of risk preference.

Steps 8, 9, 10: Operational Phase Putting the rubber to the road, assigning tasks, monitoring work flow, making mid-course corrections, while constantly reassessing not only strategy, but also performance, is the difficult work of the Operational Phase of risk management.

IMPLEMENTATION is about putting the strategic plan into action. Implementation may take many forms, depending on the culture of the organization, history of previous efforts, size in terms of number of the individuals involved, as well as management style and degree of structure within the business.

MONITOR AND ADJUST are activities that must be accomplished throughout the operational phase. Although good, solid operational plans may be developed, which well-support the accomplishment of objectives, execution of such plans seldom go exactly as envisioned. This step provides two types of control – informational control and behavioral control. Informational control is focused on doing the right things. Behavioral control is concerned with doing things right or that tasks are completed on time, by the right people, and in the most effective way possible.

REPLAN provides the level of control needed to consider fundamental shifts in the environment which would require drastic correction or an entirely new course. Replan encompasses big changes in the landscape like the inclusion of new partners or children into the organization, opportunities to purchase the neighbor's farm, or estate transfers. It might also consider smaller changes such as increases in debt capital due to unfavorable market conditions, higher than expected crop yields due to favorable weather, or faster than anticipated harvest due to higher labor efficiency.

Portions of this article are drawn from [Strategic Planning for Risk](#), a flyer that outlines the details of the Strategic Risk Management process available by [clicking here](#). This topic is covered in greater detail in the book, *Applied Risk Management in Agriculture*, authored by members of the RightRisk team. [Click here](#) for more information.

The logo for RightRisk, featuring the word "RightRisk" in a bold, blue, sans-serif font with a stylized "TM" symbol. The text is set against a background of horizontal blue lines that appear to be part of a larger graphic element.

- *Education*
- *Coaching*
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*How much risk
is right for you and your operation?*

*RightRisk helps decision-makers
discover innovative and effective
risk management solutions.*

RightRisk News is brought to you by the RightRisk Team

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