

Risk and Resilience in Agriculture

Strategic Planning for Risk Management

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Managing a farm or ranch has never been easy, especially when commodity prices are down. Changing federal, state, and other regulations, coupled with new production technologies, improved communication methods, and more abundant information combine to lead many managers to ask "How do I even start to get a handle on it all?". This paper provides a brief look at a process for setting goals. Why bother with setting goals? I think the old adage says it best, "If you don't know where you're going, any road will get you there." When times are tough 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 be.

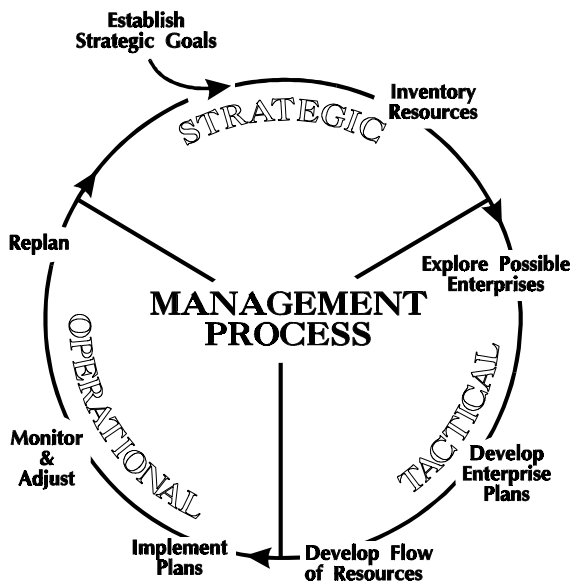
A new way of approaching the many forces and factors facing farm and ranch managers is starting to spread across this country and elsewhere. This 'new' method can be referred to as integrated management. This so-called 'new' method is probably not so new to operators who have been around awhile. In fact, this method of approaching agricultural

management problems is probably the same system used by operators years ago. While in the past an operator could afford to be intimately familiar with all the resources of his/her operation, today's operations are larger and regulations more numerous, making the job appear overwhelming, without some mechanism for approaching it.

Integrated management is a method of managing the farm or ranch operation as a whole, rather than as separate, unrelated enterprises. Some refer to this type of system as a method of 'holistic' thinking. No matter what the name, it provides a step-by-step method for working through the 'overload' of information ag managers must deal with on a daily basis.

The process of integrated management begins with setting goals for the operation. These goals include both business and personal goals. It may even include the goals of both management and personnel. Without goals, the farm or ranch is managed randomly. Yet few ag operators (let alone their employees) ever sit down and write out their goals. Goals

can describe what the operation should be in 10-20 years, where management wants to be personally in 5 years, or the kind of education they'd like to provide for their children. These sorts of goal statements are required if the persons involved, or the business as a whole is to ever reach the desired destination.



Setting Goals

The process starts with goal setting because it is a mission-critical activity. Goals form the very 'heart' of the management process. Following the process outlined below for establishing goals will help you create written goal statements. In addition, it describes a way to assign costs to each goal. Knowing the goals and their associated costs, gives you a roadmap to success for your operation. Using these goals, you can measure progress toward your destination. In addition, you can determine if your goals are realistic by considering the resource-base you have to work with.

Goals should not be simply for your operation, however. Goal statements should be about personal dreams, ambitions and desires. Your goals should include way of life, hopes for family, and life mission. In addition, you

should consider challenges, feelings of purpose, and fulfillment you get from life.

The first step in goal setting for the operation is to determine who is the management team. Is it mom, dad, daughter and her husband? Perhaps it's a mixture of parents, uncles, brothers, sisters, and spouses all joined together in a corporation. It may be just you and your spouse. The important thing is to determine just who is the management team for your operation.

Once you've determined who's on the team, get them all involved in the process. While this can be done without involving everyone, it won't be nearly as effective without their involvement. If you have a family operation, include all family members. If you have hired help, include the hired help and their spouses. The thing to remember here is that if the members of your TEAM don't have ownership of the goals, they probably won't be working hard to help you reach them. When listing out who's on your management team roster, consider these questions:

- Who's the coach? Is it Dad, Mom, Grandad, or someone else?
- Who's the quarterback? Is the quarterback Dad, Mom, the ranch manager, an uncle, or someone else?
- Who are other team players? Are the players children, other family players, hired managers, or workers, parents, stockholders, or others? Are all who are actively involved in the operation really want to be?
- Are there any players on the bench who would like to be in the game? Are there other children, family members, hired managers/workers, parents, stockholders, or others who would like to be actively involved in the operation? Have you ever asked them if they want to be involved?

Mission Statement

The next step in setting goals for your operation is to visualize where you want to be. You may be thinking 5-10 years down the road. Or you may be considering where you want to be next year. That's OK. The main thing is to form a picture of what you want the future to be like. Some experts claim that we can program our minds to help bring about the things we really want to achieve.

Here are a few things an operation can be/become:

- It could be the lowest cost producer in the county.
- It might become renowned region-wide for producing high-quality breeding stock.
- It may become an operation known for high-quality hay, or a source of reasonably priced livestock forage.
- The operation could become known for its quality hunting opportunities or recreational experiences.

Here are a few things an operation could do:

- It could provide money for your retirement.
- It should generate enough income for your family to live modestly until your retirement.
- It may provide the type of lifestyle your family desires.
- It might give the kind of recreational experience potential customers are looking for.

You want to capture this vision of your operation in a mission statement. This should be a list of all the things you want the operation to be and all the things you want to do with the operation. What sorts of things do you see the operation doing?

A mission statement should be a statement of the purpose of the operation. It should describe what you see the operation becoming

for you, your family, and for your management TEAM. A mission statement should specify what your operation will focus on in the long run.

Example:

The mission statement of the XXX ranch is to:

1. Market grass through the sale of livestock and wildlife products.
2. Market recreational experiences by utilizing the ranch resources and ambiance.
3. Manage all ranch resources in a profitable way, allowing all people involved to enjoy the ranching lifestyle.
4. Be good stewards of all ranch resources, leaving them in better condition than they were when received.
5. Keep all buildings, improvements, and livestock handling facilities updated and visually appealing.

Written mission statements help build strategic goals that work for the operation. A mission statement may be viewed as being the trunk of your farm/ranch tree. From the mission statement springs the support and direction for the entire operation. All the operation's goals come from the mission statement or vision for the operation.

Writing Strategic Goals

Written mission statements help build strategic goals that work for the operation. A mission statement may be viewed as being the trunk of your farm/ranch tree. From the mission statement springs the support and direction for the entire operation. All the operation's goals come from the mission statement or vision for the operation.

Good goal statements should be SMART. That is, they must be a Specific statement of

what is to be accomplished; they must be M measurable by some objective means; they must be Attainable; they must be Related to one another; and they must be Tractable over time. Setting SMART strategic goals will provide you the tools to manage your operation to achieve the higher goals in your mission statement.



SPECIFIC-goals should be definite, focused, and descriptive of the actions to take place. This part of the goal tells you *what* must be done in precise terms.

Example:

To generate enough income to allow us to maintain ownership of the operation.

MEASURABLE-goals should be easily measured. Such goal statements provide a benchmark against which to measure performance. This portion of the goal statement provides a means of knowing when the goal has been reached.

Example:

To generate a \$3,500/year principal payment, allowing us to maintain ownership of the operation.

ATTAINABLE-goals are within the reach of the operation. They can be accomplished and

are realistic. Setting unrealistic goals for the operation is not helpful.

Example:

To generate a \$3,500/year principal payment, allowing us to maintain ownership of the operation.

This goal is realistic for the operation, if it usually yields a return greater than \$3,500 each year. However, if it provides only a few dollars of return over its expenses each year, this may be an *unattainable* goal.

RELATED-goals are connected or associated with other goals set for the operation.

Example:

To generate a \$3,500/year principal payment, allowing us to maintain ownership of the operation.

This goal is related to other goals that move toward ownership. However, another goal might call for expansion. If this requires outside capital, it would reduce ownership of the assets pledged to the lender, making the two goals *unrelated*.

TRACTABLE-goals are manageable. These goals involve factors and resources that are controllable. They can be handled using existing resources.

Example:

To generate a \$3,500/year principal payment, allowing us to maintain ownership of the operation, while not requiring more time or new skills on the part of management.

This goal is tractable if the current management can handle the operations necessary to generate the dollars. However, if reaching this goal means that the manager would need to spend 5 out of 12 months a year monitoring stock reports, while trying to run an ag operation, it would not be a very *tractable* goal.

Where the mission statement is the destination, strategic goals form the roadmap. Strategic goals proceed from the operation's mission statement. They are supported by the mission statement and are nurtured by the principles it contains. They represent the specific steps the operation must accomplish to reach its final objective. To do this strategic goals must be prioritized. Resources available on most operations and businesses are limited. Thus, not all goals can be reached at the same time. Working on many or all goals at the same time is desirable. However, it may not be possible. Prioritizing your goals is a way of making sure the most important things are done first. If additional resources exist, they can be applied toward reaching less important goals.

The strategic goal worksheet provided is designed to help you draft strategic goals. To completely describe a strategic goal, a deadline for accomplishment must be set and resource demands calculated. A series of blanks is provided for this purpose. The worksheet also provides space for defining tactical and operational goals which are the steps for accomplishing the strategic goals.

Once strategic goals are written, make them visible. Hang a copy of your goals in a prominent place where they can be seen by all management TEAM members. The refrigerator in a family operation may be the ideal location. In a corporation, the main office may be the best place. Keeping your goals where the TEAM can see them often, helps everyone keep in mind what's important for the operation.

The next step in the management process is to develop a complete resource inventory. Completing this step will provide a list of all resources available on the farm/ranch—financial, livestock, wildlife, human, agronomic and natural resources. Once goal statements and an inventory of resources have been drafted, the strategic level of the process is accomplished. This work sets the direction for everything that comes after. The tactical level explores how to get from where you are to where you want to be. This includes all activities or enterprises that can turn farm/ranch resources into income. Such tactical planning is done within the resource limitations of the operation, including the human resource limitations of time and skill levels.

Within the operational level of the process, new or revised plans are implemented—put to work on the ground. This is where the “rubber-meets-the-road”. This is the “what is done” part of the process that accomplishes the goals set at the strategic level. While plans are being implemented, resource use must be monitored and adjusted as necessary. Replanning occurs throughout the year as resource use is monitored; it should also occur at year end. In this way the management process provides information on how resources performed over the year, including contributions toward goals.

Ag managers must process an ever increasing amount of information to be competitive in today's operating environment. In addition, the level of competition inside and outside our borders is increasing. To make sense of this and to manage in a way that allows success, a method of approaching the problem is needed. Integrated management—a means of looking at the resources available, analyzing alternative enterprise activities, and implementing plans to accomplish those activities in a resource-sustainable manner is one way to approach the problem. Success in this management system is measured by progress toward goals, both business and personal. It's been said that money alone can't buy happiness. When extra dollars of revenue help the manager reach strategic goals, progress alone can be very satisfying.

Strategic Goal Worksheet

The goal statement is the verbal description of the goal to be accomplished.

Goal Statement:

Strategic goals should have an associated deadline. This helps prioritize your goals.

Deadline for Goal Attainment:

----- Goal Costs/ Resources Required: -----

Resources needed to achieve this strategic goal should be briefly described/listed in this section.

This will help in tactical planning for goal attainment.

<u>Basic Resources</u>	<u>Human Resources</u>	<u>Financial Resources</u>	<u>Livestock Resources</u>	<u>Wildlife Resources</u>

Tactical and operational goals are the means we use to accomplish strategic goals.

Associated Tactical Goals:

Briefly outline here the tactical and operational steps you see as necessary for reaching your strategic goal.

Associated Operational Goals: