



# RISK MANAGEMENT

---

JUNE 2003

MG7A.1

---

Opportunity is the condition favorable for attainment of a goal. Risk is the possibility of suffering loss. Each is the other side of the same coin. This management guide outlines a few steps you can take to manage risk on your farm.

## **Step One: Begin with your mission in mind.**

Take time to reflect on what is important to you and your business partners. Often this includes your family. Together get away from your farm and talk about what each of you want from your business. Identify what interests you all share in common. Weave these together in a written statement that will motivate everyone even when times are hard and guide everyone when there is disagreement about an important decision.

This is a checklist that can be used to guide your mission statement.

A mission statement should:

- describe what we are here to do and why;
- be concise;
- be outcome-oriented, stating a broad goal or goals that will be achieved;
- be inclusive of the kinds of strategies and partners that will be used to reach each goal;
- be general and flexible enough to adapt to changing times, markets, needs, and customers;
- be developed by key stakeholders;
- and be clear and compelling.

## **Step Two: Identify what can go wrong before it does.**

Search for and locate risks before they become problems. Draw upon your own experience and the experience of others. Remember isolation is the death of an entrepreneur. Seek out mentors, seek advice from specialists and learn from your competition.

## **Step Three: Get the facts straight.**

Identify symptoms and facts related to “the problem.” Figure out what observations and data you need to track and how to efficiently record that information.

---

**Step Four: Diagnose the underlying causes.**

Transform risk data into decision-making information. Identify the underlying causes of the symptoms and problems. Understand the interests of various parties associated with "the problem". You will need to evaluate impact, probability and timeframe. This will help you prioritize which risks need the most attention.

One way to diagnose risks and opportunities is to use the following two radar screens. The columns indicate the chance of this opportunity or risk occurring. The rows indicate the level of impact. Within this radar screen, mark with an arrow where you assess this opportunity or risk is moving.

| <b>Opportunity Radar Screen</b> |        |          |        |
|---------------------------------|--------|----------|--------|
| Identified Opportunity:         |        |          |        |
| Date:                           | Remote | Possible | Likely |
| Windfall                        |        |          |        |
| Significant                     |        |          |        |
| Helpful                         |        |          |        |

| <b>Risk Radar Screen</b> |        |          |        |
|--------------------------|--------|----------|--------|
| Identified Risk:         |        |          |        |
| Date:                    | Remote | Possible | Likely |
| Fatal                    |        |          |        |
| Serious                  |        |          |        |
| Tolerable                |        |          |        |

Another way to analyze your business is to assess the strengths, weaknesses, opportunities and threats your business is or will be facing. The following matrix guides this exercise. Fill in the boxes with your lists and answers.

| <b>Interplay of Strengths, Weaknesses, Opportunities and Threats</b>  |  |   |
|---|--|---|
|   | List your major opportunities here.<br>.<br>.<br>.<br>.<br>.<br>.<br>. | List your major threats here.<br>.<br>.<br>.<br>.<br>.<br>. |
| List your primary strengths here.<br>.<br>.<br>.<br>.<br>.<br>.<br>.  | What do you need to invest in?   | What do you need to defend?                                 |
| List your primary weaknesses here.<br>.<br>.<br>.<br>.<br>.<br>.<br>. | What do you need to decide?  | What needs damage control?                                  |



**Step Seven: Track your management.**

Monitor your risk indicators and mitigation actions.

**Step Eight: Respond when your plan gets off course.**

Correct for deviations from your plan.

**Step Nine: Realign your plan appropriately.**

Expect the unexpected. Not everything will be in your control. Make changes in your plan accordingly.

**Step Ten: During every step communicate.**

Talk with your family, partners, employees and customers about how together you can manage risk. Provide information and feedback to your farm business on the risk activities, current risks, and emerging risks.

**Credits**

The author of this publication is Jerry Jost with the Kansas Rural Center. The Kansas Rural Center is a private, non-profit organization that promotes the long term health of the land and its people through education, research and advocacy. The Rural Center cultivates grassroots support for public policies that encourage family farming and stewardship of soil and water. The Center is committed to economically viable, environmentally sound and socially sustainable rural culture. For more information, contact the Kansas Rural Center at P.O. Box 133, Whiting, Kansas 66552 or (785) 873-3431. Please visit KRC's web site at [www.kansasruralcenter.org](http://www.kansasruralcenter.org).

Funding for this management guide came from USDA's Risk Management Agency and the Kansas National Farmers Organization.

---