

RIGHTRISK™

RIGHTRISK NEWS

Managing Risks Moving Forward: A Focus on Decision Quality

DATES TO REMEMBER

Margin Protection Program Dairy (MPP-D)
- 2018 crop year
July 1 - Sept. 30th, 2017

Fall crops sales closing date
- September 30th

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2017 for 2018 crop year coverage

Acreage Reporting:
- November 15th

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

Risk management is a necessary but sometimes frustrating activity. Good risk management decisions can result in bad outcomes due to the uncertainty involved. For this reason, it is important to judge the quality of a risk management decision based on the information available at the time the decision is made and not solely on the final result.

Results are obviously important but even high quality risk management choices don't come with guarantees in the face of significant uncertainty. However, better decisions should lead to good results more consistently.

For example, a producer developing a solid plan to manage market risk is more likely to achieve his/her goals in a given year than a neighbor who simply sells everything on the cash market at harvest. However, in some years, that neighbor may do better because markets just happened to work out that way. That should

not deter the producer from continuing to develop and implement sound marketing plans each year to manage market risk.

It may seem elementary but it is worth repeating. Good decisions don't always result in good outcomes. It is okay to consider past results in making management decisions, but don't let that past experience persuade you that you should have made a different decision without good cause.

Risk management decisions are focused on the future. Too great a focus on the past can lead to biased decisions and fatal results.

A focus on decision quality involves evaluating the seven characteristics of good risk management decisions:

1. Appropriate decision frame
2. Clear values to adhere to
3. Creative alternatives to choose from
4. Good information
5. Clear tradeoffs and sound reasoning
6. Choice alignment with values and objectives
7. Committed implementation

An appropriate decision frame captures the context in which you are making the decision, including both the internal and the external environment. It should also incorporate the objective(s) you are trying to accomplish through the decision, as well as the uncertainties that could influence your ability to reach them.

Objectives need to be clear and align with your values so that when you look back on a decision, you can clearly see how the choice you made was better than the other alternatives available at the time.

It is impossible to choose an alternative you haven't considered, so think outside the box and develop good alternatives. At the end of the day, it is much easier to make a good decision if you are trying to decide between several good choices.

Good decisions don't always result in good outcomes.

How Much Risk is Right for You?



HIGHLIGHTED COURSE

The *Risk Scenario Planning* (RSP) course is designed to help farm and ranch managers get started evaluating risk and risk management strategies. Certainty is an illusion at best. As a result, all risk management strategies are an attempt to either reduce the consequences of negative outcomes, increase the chances of positive outcomes, or both. However, comparing those strategies before trying them in the real world can sometimes be a challenge. The RSP course provides the background needed to better understand risk and techniques for evaluating management strategies. Case studies presented in the course provide the context for application of the approach described.

The course also provides an introduction to the *Risk Scenario Planning* tool, developed to provide an easy-to-use method for comparing alternatives on a financial basis. In this way, the tool includes the uncertainty introduced by risk and brings it into the decision-making process. The resulting management decisions are more likely to result in the desired outcome, where possible consequences have been considered in the selection process. Access to the *Risk Scenario Planning* course is free of charge and the accompanying guide with included examples makes getting started easy.



For More Information on the *Risk Scenario Planning* course, see <http://RightRisk.org> > Courses.

MANAGING RISKS MOVING FORWARD CONTINUED FROM PG. 1

There are no future facts. At best, factual information can only describe the present or the past. Risk management decisions are made for the future and the future is full of uncertainties. Use experts wisely to help gather relevant information about what the future could look like. You want to be able to say that you incorporated the relevant facts known at the time and the best information about what the future could be when making your decision.

One of the most difficult challenges in making risk management decisions is grappling with tradeoffs involving multiple objectives. For example, is it more important to have the capacity to harvest your crop within 10 days to reduce production risk than it is to save \$2,000 in annual interest expense by operating larger equipment? Furthermore, a decision made today usually influences future decision opportunities. You want to be able to look back and say that your reasoning was sound in evaluating the alternatives and that the choice you made best accomplished your objectives.

The choice you make should also align well with your values. It is important to reflect on this before making the final selection. Too often we focus on one piece of information and let it dominate the selection process. A quick reflection on choice-alignment with your values can help prevent the decision from improperly reflecting an imbalance among your priorities.

Finally, a good risk management decision must be accompanied by a commitment to implement it. A fully-implemented strategy with committed effort offers the best chance for consistent success.



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

RIGHTRISK™

- *Education*
- *Coaching*
- *Research*

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RightRisk News is brought to you by the RightRisk Team

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

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