



## HIGHLIGHTED TOOL

Most of today's farms and ranches involve more than one enterprise. Production risk spread over several enterprises often contributes to their financial successes. Enterprise risk analysis – estimating net returns for an enterprise and the variability in those returns (risk) – is an often-neglected, but necessary part of developing an overall risk management strategy. The *Enterprise Risk Analyzer* (ERA) tool helps evaluate farm/ranch financial performance once the necessary data has been entered.

Analysis includes whole farm/ranch net return, enterprise net return, break-even prices, and break-even yields. Comparing enterprise performance and determining how much each enterprise contributes to whole-farm/ranch profitability is then possible. The ERA tool also provides risk estimates based on user projections for commodity prices and yields. The ERA tool estimates probabilities for earning a given level of net income, a break-even price, or a given break-even yield.

For More Information on the Enterprise Risk Analyzer tool, see [RightRisk.org](http://RightRisk.org) > Resources > Risk Management Tools.



## IRREVERSIBLE DECISIONS CONTINUED FROM PG. 1

Implementing this strategy will involve many decisions that will be difficult to reverse once they are made. For example, the previously described decision to fire an employee is nearly impossible to reverse. It is also difficult to take back a pay raise or to re-train employees once they have been trained to do things a certain way. All of these are instances where careful thought and consideration are warranted to make sure the action taken is correct and that it aligns with the overall strategy.

Other decisions might be easily reversed like the decision to hold weekly employee meetings on Monday mornings at eight o'clock. These decisions can be made quickly, knowing they can be changed if it isn't working out.



By allowing future flexibility, reversible decisions are better from a risk management point of view. However, irreversible decisions play a significant role in getting the organization to where it wants to go.



Irreversible decisions cannot be avoided if the business truly desires success. It is important for the manager and other individuals involved to recognize these types of decisions for what they are. Once identified, time must be set aside to make sure that careful consideration is given to the alternatives available and their potential contribution to the future of the organization. Particular attention must be given to how these various choices do or do not align with overall management strategy and goals for the business.

Van den Steen, Eric. 2017. A Formal Theory of Strategy. *Management Science* 63(8):2616-2636.

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is right for you and your operation?*

*RightRisk helps decision-makers  
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