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RIGHTRISK NEWS

The Importance of Effective Risk Communication

DATES TO REMEMBER

Spring-planted crops sales deadline:
- March 15, 2020

Noninsured Crop Disaster Assistance Program (NAP)
Deadline for springseeded forage and all other crops
- April 1, 2020

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

As much as anything, risk management is about communication. There are five key principles that describe a good risk management culture within an organization: (1) the ability to anticipate decisions; (2) adequate resources and capacity to respond to changing conditions; (3) free flow of information into and throughout the organization; (4) a willingness to learn and adapt; and (5) risk management that is embedded in all decision making processes. Item (3) on this list is the topic of this discussion, because communication, the free flow of information into and throughout the organization, drives so much in terms of success when it comes to managing risk.

Imagine if you had access to all the information in the world, including what was going to happen tomorrow or a week from now. This information would obviously make risk management a moot point, because there would be no risk to manage. Outcomes have already been determined with certainty. Your hope is that you are the only one with this information and you are able to take advantage of the situation by making decisions that optimize your results, while others continue to do what they were doing with certainty and don't alter the outcome.

The power to make decisions that change the results reveals the fantasy of the situation described above. Of course, this fantasy world doesn't exist because people do react to information as it is revealed. For this reason, it is impossible to reliably predict the future for any significant amount of time.

Risk management then becomes not so much about predicting the future, as it is about having good reliable information upon which to base your risk management decisions. Where does this information come from? It comes from solid communication skills and a strong culture of communication within your organization.

There are five sources of risk in agriculture: (1) market or price risk; (2) production risk; (3) institutional risk; (4) human risk; and, (5) financial risk. Each of these can best be addressed with open communication and a free flow of information into and throughout the farm or ranch organization. Addressing market and institutional risk relies a little more heavily on communication with outside sources and the flow of information into your organization. The other three sources of risk rely a little more heavily on the flow of information throughout your organization and communication with people within the organization.

Market risk is best addressed with good, reliable market information. Good market information doesn't guarantee success because markets can change significantly in a short amount of time and your ability to react might be limited. However, the best market risk management plans in the world are useless if implementation is based on bad market information.

Find two to five reliable sources to communicate with to bring good market information into your organization. Create a culture within your organization where market

How Much Risk is Right for You?



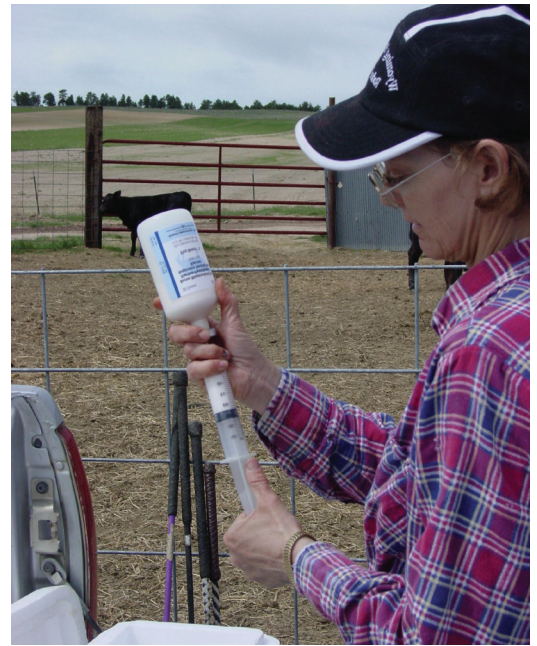
prices for inputs as well as outputs are openly shared throughout the organization, to allow the people making buying and selling decisions access to the most complete information available. Good, timely and accurate communication about factors affecting production costs are also an important component of formulating and implementing a successful market risk management plan.

The best way to address institutional risk is also with good, reliable information flowing into the operation from outside sources. Developing sound relationships with commodity organizations and other like-minded groups that regularly communicate with you about prospective changes in institutional rules and regulations is an important aspect in the management of institutional risk. Within your farm or ranch, open communication about these policies might bring to light potential impacts on your organization that may not have been previously apparent to you. These new perspectives may provide opportunities to control the risk within your organization by taking action before the policies are put in place.

Production risk comes from many sources including weather, pests, disease, etc. Open communication throughout your farm or ranch describing production conditions provides the early warning mechanisms needed to effectively address production risks. Outside information helps too, especially when it comes to something like getting the latest weather forecast on your smart phone so you can plan accordingly.

Human risk and financial risk are two very important areas where communication often breaks down. Sometimes people don't feel comfortable discussing particular financial or personal information on a regular basis. However, these types of internal communication are critical to allowing the manager to stay on top of things and manage these risks.

Good communication is also a key skill for properly training employees. On the other hand, you want an employee who feels uncertain about how to do something to communicate that with you before something bad happens. Even that message must be clearly communicated to be effective.



Finances are an area that can create communication difficulties. In a large organization, you may feel overwhelmed with deciding who needs to know what about the business finances. Smaller organizations present their own problems in that you may feel isolated with no one to "bounce the numbers off of." In any case, good financial risk management results from not only staying on top of the numbers, but also from communicating with lenders, business partners, spouses, and others on a regular basis to make sure they know about the situation and everyone is pulling in the same direction.

Creating a good risk management culture is a difficult task. Good communication is key in making it happen.

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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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