

Results Based Risk Management Education

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Introduction

The globalization of agricultural commodity markets, rapidly rising production costs and daunting environmental challenges are forcing farmers and ranchers to make dramatic changes in how they manage their businesses. In turn, we as education providers are being forced to rethink how to provide the business management information farmers and ranchers need to succeed. To be of value to the “new breed” of agricultural producer, we must adopt innovative ways to deliver the tools they need to succeed in today’s high risk environment. That is what we call **Results Based Risk Management Education**. A discussion of several major factors driving the need for change in risk management education is presented below.

The role of government – Increasingly, government policy makers are placing greater confidence in the ability of producers to make sound business decisions. They continue to pass market-oriented farm legislation and crop insurance reforms which allow producers to become more active in managing their profit opportunities and risks.

Outside forces – Many factors are forcing producers to make risky, but potentially profitable, decisions regarding their businesses. These factors include increased global competition, rapid changes in the structure of production agriculture, changes in the marketing of agricultural products in the farm supply sector, new technology, and more volatile weather patterns.

Risk Connections – Increasingly, decisions in certain risk areas are affecting the risk levels and profitability of other aspects of farming. For instance, more lenders are now requiring sound business plans before approving credit. Thus, good management of marketing risks can lower borrowing cost and result in long-term financial stability.

In the past, we have been able to evaluate the success of our educational programs by the number of people attending workshops, the number of brochures mailed or the amount of material distributed. That approach is no longer enough. Instead, we must focus on the **targeted results** we expect farmers and ranchers to learn, achieve, or apply as a consequence of their participating in our program. For example, for a program focused on business planning, success would be measured by how many participants actually created a business plan, or a program on family succession planning might be measured by how many families actually developed a written plan.

Risk Categories

The risks that farmers and ranchers must manage on a daily basis fall into five general categories: production risk, financial risk, marketing risk, human resource risk and legal or institutional risk.

Production Risk – In earlier times, the Land Grant College system led the way in developing new production technology and the Cooperative Extension Service accepted the responsibility for helping producers incorporate that technology into their management practices. In recent years, the private

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sector has become much more active in providing grower education about production risk issues, but Extension still plays an important role in creating a bridge between the researcher and the farmer.

Financial Risk – The vast majority of today’s producers rely on borrowed money. Managing interest rates and cash flow has become a major risk management challenge for producers. Improved information systems, including the internet, are providing producers new buying opportunities that can help control production costs. Enterprise analysis is becoming a critical risk management tool. The rapid increase in farm size and therefore budget size is often outpacing the ability of producers to manage them. It is the rare producer who does not need improved financial risk management skills.

Marketing Risk – There was a time when all that was required of a producer was to produce. Once he/she delivered their product to the grain company or the auction barn, it was someone else’s responsibility to do the marketing. Things have changed dramatically. Market volatility, product quality and food safety issues, more informed consumer buying habits and U.S. monetary policy are just a few of the things that producers must now consider when making marketing decisions. Growing urban populations that are becoming increasingly concerned about environmental and food safety issues are creating formidable challenges while at the same time offering exciting new direct and or niche marketing opportunities. Well thought out marketing strategies are rapidly becoming a necessary ingredient in any successful farm management plan.

Human Resource Risk – Divorce is one of the major factors in farm bankruptcies. It is the rare multigenerational farm operation that doesn’t encounter serious “family” problems. Farm family succession issues are always at, or toward the top of the list when producers are asked about the risk management issues they are dealing with. Absent a well thought out succession plan, the future of the farm can be in real jeopardy. As farm sizes increase, farm transfer and labor management issues become increasingly important. Experience tells us that human resource risk issues can be some of the most daunting challenges that farm families face.

Legal or Institutional Risk – Taxes, environmental regulations, farm programs, product liability issues, workers’ compensation, farm labor policy, etcetera all fall under this category. As with all of the risk management categories, the legal risk issues that farm families face are increasing both in terms of number and in scope.

Results Based Risk Management Education

The Extension results based risk management education program is national in scope and is administered by the Cooperative State Research Education and Extension Service (CSREES). It is administered through four regional risk management education centers located at Washington State University, University of Nebraska, Texas A&M University and the University of Delaware plus the University of Minnesota Digital Center that houses the National Ag Risk Education Library. Each Center receives funding through CSREES that is in turn distributed in their respective regions through a competitive grant process. Both public and private entities are encouraged to apply. The application process is relatively simple and is done entirely online at www.westrme.wsu.edu. All grant award decisions are made by an independent review panel of agricultural professionals representing both the public and private sectors. Grant awards are generally between \$5,000 and \$40,000. Progress reports are easily filed on line. When each project is completed, the final report is posted on the Digital Center’s web site (www.agrisk.umn.edu) to be used as a reference for public and private educators planning similar projects.

Criteria

There are certain criteria the review panel uses to evaluate each application, each of which is discussed below.

Targeted Results – First and foremost, what are the verifiable, targeted results that producers will learn, achieve and/or apply as a result of participating in the project? It is important that applicants think through what they anticipate their participants will really do as a result of their participation. Simply attending a workshop or visiting a web site are not enough. For example, if the applicant is proposing a program to help producers improve their marketing skills, the project will likely include the benefits of having a written marketing plan. The result we are looking for is that the producer actually writes the plan. In a program on succession planning, it is not enough that participants simply gain information. Rather, they must take actions like holding a family meeting, contacting a lawyer or writing a will as a result of participating in the program.

Producer Demand – Why will producers choose to participate? It is easy to identify what producers “need to do” to improve their farming business. We are all aware of education programs that have included dynamic speakers providing much needed information, but no producers showed up. American businesses learned years ago that to succeed, they must create the products their customers want rather than what is easy or the most profitable for them to produce. That paradigm change revolutionized how businesses developed and marketed their products. We are learning that same lesson with grower education programs. It is essential that we create programs that producers want, rather than what we want to create or what we think they need.

Collaborators – Experience teaches us that strong teams produce strong programs. Outside collaborators or partners can contribute several things to a project.

- Expertise – In today’s technical world, it is critical that we provide producers with accurate and timely information. Collaborators are a good source of that information. No one can be an expert on everything. By the judicious use of collaborators, the project director can strengthen the project and really impact the producer results ultimately achieved.
- Access to producers – Producers decide to participate in a program for a variety of reasons, one of which is familiarity with someone who is involved. In some cases, the right collaborator can dramatically increase the likelihood that people will participate. For example, involving a local lawyer with good name identification in the community or region in a succession workshop will increase the likelihood of success.

Results Verification – We want applicants to tell us how they will verify how successfully they have reached their targeted results. In a marketing project, how many marketing plans were actually written? In a business planning project, how many business plans were created? Verification can be accomplished through a variety of means including evaluation forms completed by participants, follow up site visits or phone calls and other anecdotal evidence. If done properly, the verification process, in total, comes down to a simple yes or no answer; did the project accomplish the specific targeted results that were included in the application?

Potential for Wider Usage – In certain circumstances the review panel will consider a project that may not fit the first four criteria, but has the potential to create longer term producer results. For example, we are currently funding a project designed to learn how to reach the new and evolving audiences for risk management education. Although it will be difficult to measure targeted producer results, the information gained may lead to improved results in a wide range of other projects.

Innovation – Similar to the wider usage criteria, there are potentially circumstances where an innovative project did not meet the results based criteria, but could still gain approval from the review panel

because of its innovative nature. New usage of technology such as web based learning is an example where a successful project could lead to improved results in other projects.

Summary

The Extension Results Based Risk Management Education program is a new approach to an old problem. How do we most effectively provide farmers and ranchers with the improved risk management skills they need to thrive in today's rapidly changing business environment? There is growing evidence that it is working. We regularly receive comments from project directors, collaborators and participants alike that our concept of focusing on results rather than activities is a valuable new tool to use in delivering quality risk management education to farmers and ranchers. We are proud of our efforts and anyone interested in providing quality risk management education to their producers is welcome to join us. You can find out more details on the Center's web site www.westrme.wsu.edu or by calling 509-477-2168.