

COMPLIMENTARY TEACHING MATERIALS



Farm Business Management: The Fundamentals of Good Practice

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Chapter 3

The Environment Farmers Operate Under

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LEARNING OBJECTIVES

Discover the nature of the uncertain environment under which farmers work.

Learn about the different types of risk and uncertainty farmers are faced with.

Understand the planning cycle that should be followed when managing a farm under risk and uncertainty.

Learn the meanings of the terms 'plan infeasibility' and 'sub-optimal'.

Find out about the use of strategies, and decision rules, in decision making.

Recognize management has several broad functions.

Appreciate the importance of the farm–household complex as an important aspect in farm planning.

Risk and Uncertainty

Almost everywhere, primary production operates under an uncertain environment and markets.

This means output cannot be predicted with certainty, and nor can some input requirements.

Decisions must be made despite this lack of perfect knowledge.

The decision environments can be classified into certainty, risk and uncertainty as separate situations.

Certainty: requirements and outcomes are known with certainty.

Risk: know ranges of requirements and outcomes, and the chance of each possibility occurring.

Uncertainty: do not know ranges, nor chances, of some input requirements and outcomes.

Defining and Describing Risk and Uncertainty

Input requirements and outcomes can take on a number of different values.

Each has a different chance of occurring: define by giving the chance a numerical value.

Farmers face a range of types of risk and uncertainty. Can be defined into groups:

- Price: inputs and outputs.
- Technical: physical inputs and outputs.
- Technological advance: who knows what improvements!
- Institutional: rules, regulations and processes of various authorities.
- Financial: lending, interest rates, processes.

Impact on Planning and Action

Always facing the unexpected; consequently need constant re-planning and action variations.

With change from expected, old plan may be infeasible (no longer practical) and/or sub-optimal.

Need to follow the constant planning, execution, control, re-planning cycle as it goes round and round.

With uncertainty, the concept of a strategy becomes important.

A strategy is a set of actions, each one of which becomes optimal under certain conditions.

To assess a general plan, need to carry out a series of budgets, one for each set of possible outcomes.

Nature of the Management Input

A manager must follow through with:

- Assessing the goals of the farm owners (this provides something to measure against).
- Sorting out the problems and opportunities facing the farm (what are the alternatives?).
- Gathering the information that will allow assessing the alternatives.
- Detailing and analysing the alternatives.
- Coming to a conclusion on the best action.

Carrying Out the Conclusions

The manager must efficiently apply the decision(s), i.e. take action.

Bear the responsibility of the outcomes of the actions (involves observing outcomes, and not flinching from optimal re-assessment).

Analytically evaluate outcomes, and restart the planning, execution, control and re-planning cycle.

Ability in achieving the process varies enormously throughout the farming community.

Farm–Household Complex

Most farms in the world are in a type of owner–operator situation. Consequently, there is an intimate relationship between the farm and the household. While it is not always the case, generally the household is located on the farm.

The benefits include the family enjoying the farm environment and being able to help.

However, there is always a conflict between the farm and household. They compete for capital, labour and leisure time.

The relationship follows a life cycle:

- start with just the partners;
- then includes young children;
- progressing to older children; and
- eventually back to just a couple.

At each stage, the benefits and competition for resources change.



Thank You

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