

GOT RISK

***Don't Gamble the Farm Away -
Take Charge of Your Future Today!***

Fourth Edition
Fall 2002

Facilitators Manual

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Take Charge of Your Future Today!***

Participants Manual

Fourth Edition
2002

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Primary Funding provided by the
Philip Morris Family of Companies,
Shared Solutions Program



Other Funding Assistance by:
USDA Risk Management Agency (USDA/RMA) and
University of Wisconsin - Extension

A curriculum in the national
Achieving Risk Management Success (ARMS)



series for
dairy.

A curriculum in the state of Wisconsin
Ag Ventures series



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Note: Hard Copies of Presentation Slides for use in making overheads are available upon request from Kevin Bernhardt (608) 342-1365 or bernhark@uwplatt.edu

Participant Handouts

1. *[Blue] Participant Packet A*
 - Pre and Post Workshop Survey*
 - Warm Up Exercise*
 - Risk Awareness Module Introduction and Objectives*
2. *[Off-White] Participant Packet B*
 - Probability Exercises 1, 2, and 3*
 - Participant Copies of Facilitators Presentation Visuals*
3. *[Green] Participant Packet C - Risk Assessment and Planning*
 - Picture of Bella Acres Family Tree (for use with Bella Acres case study only)*
 - Summary of Bella Acres Case Study (for use with Bella Acres case study only)*
 - Overall Categories of Risk worksheet*
 - Risk Assessment Worksheets (one for each of 6 categories of risk plus 1 non designated worksheet)*
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Preface

Preface

Purpose of this Curriculum

The first step in problem solving is being aware that you have a problem. In the case of risk management, it is the purpose of this curriculum to lead participants through a self-discovery (awareness) of the many risks that they may face in their farm business. Those risks may range from production to price, financial, environmental, human resources, public relations, or other risks. In the process, participants will learn how to define risk and risk management, self-analyze their own tolerance for risk, and learn a process for developing a risk management plan for their farm business. The product (or prize) that participants will go home with at the end of the day is a written whole-farm risk management plan.

Curriculum Objectives

- 1. Learn and define risk and risk management.*
- 2. Identify sources of risk that the participant's farm business faces.*
- 3. Prioritize the potential impact of each source of risk.*
- 4. Develop alternative internal and external means to address the source of risk.*
- 5. Via development of a plan and follow up, participants will pull the trigger and act on their own risk management recommendations.*

Curriculum - What is it and how does it work?

This curriculum is part of the Wisconsin based AgVentures series of business management curricula. It is also a part of the national Achieving Risk Management Success (ARMS) program. Development principles for the curriculum include:

- 1. A learning process based on Experiential/Hands-on learning*
- 2. Inclusion of a facilitators "how to teach" guide*
- 3. That producer participants will go home with something of value for their farm business*
- 4. Curriculum that is applicable for multiple delivery*

The curriculum materials include both what is to be taught and also suggested methods for how to teach it. It is experientially based, meaning that the lecture format is minimized with the emphasis being based on participants working through exercises, case study decisions, and small group discussions so that the participant can learn by doing and learn from others.

While the "teaching/lecture" function is less, the "facilitator" function is very important. The

goal is to create an environment where participants are pushing themselves and each other to learn and understand the concepts. The role of creating that environment falls on the facilitator. A facilitators guide book is available that provides suggestions for how to teach the materials, and how to create the learning environment. Some will do well in this role right away. For others, it is often useful to witness a full workshop once before facilitating one on your own. It all depends on the skill set and comfort level of the individual, but either way, the facilitators guide will likely be very helpful in preparation.

A main driver in the development of the curriculum was that participants would have something of value that they could take home and put to use in their operation right away, something that would be a return on their education investment. In this curriculum the take home prize is a comprehensive risk management plan that identifies sources of risk, prioritizes them, identifies alternative means to address the risk, and details the action steps for implementing risk management strategies.

Flexibility and the Multiple Ways to Use the Curriculum Materials

The GOT RISK curriculum is the second generation of what was previously the Risk Awareness curriculum. The Risk Awareness curriculum had as its center teaching piece the Bella Acres case study. The workshops and the Bella Acres case study were well received. However, one criticism was that the Bella Acres case study was for a relatively small herd (100 cows). It was requested that curriculum and video be developed for a large herd audience as well. The Philip Morris Family of Companies Shared Solutions Program was willing to fund a large herd version. The result was a very high quality video titled “Dairy Risk Management: Take Charge of Your Future” that is based on interviews with producers who operate large herds from across the country (California, Wisconsin, Illinois, and New York).

The GOT RISK curriculum keeps the Bella Acres case study and accompanying materials as an option to use, but also offers the “Dairy Risk Management: Take Charge of Your Future” video and accompanying materials.

Which One Should I Use?

The Bella Acres video is a case study. It is a 25 minute video that depicts a three generation family with a 100 cow herd in a tie stall barn. An interviewer is having discussions with members from each generation while still photographs show on the screen (not a true video!). A variety of risk management ghosts have been buried in the words spoken and/or the pictures.

The “Dairy Risk Management: Take Charge of Your Future” video is approximately 40 minutes. It is a high quality (actual) video of interviews with real producers from California, Wisconsin, Illinois, and New York. The producers are discussing risk management challenges that they have faced. A narrator provides some additional information and set up. While not necessarily an obvious part of the discussion, all the producers are owners/managers of large herds.

While herd size is an obvious difference between the two videos, it really is not a predominant factor in either case. Audiences of all herd sizes will identify with either and the choice of which to use, or a combination of both, is up to the facilitator putting on the workshop. After all, with respect to risk management, operations of all herd sizes face many similar risks.

If you want your participants to work through a specific case study then Bella Acres is useful. If live producers rather than fictitious ones are your interest then the “Dairy Risk Management: Take Charge of Your Future” video may be the best option. Bella Acres is more directed towards small to medium sized traditional dairy farms, while “Take Charge of Your Future” is based on large farms. If you are wanting to just concentrate on specific categories of risk (price, financial, environment, etc.) then “Dairy Risk Management: Take Charge of Your Future” is the best way to go. In some cases, it might even make sense to use a combination of both.

Another great advantage of the “Dairy Risk Management: Take Charge of Your Future” video is its potential for use as a part of other workshops/meetings. The video is constructed in 8-10 minute segments making it very attractive as a short part of other workshop events. For example, a workshop on environmental issues could quite effectively use the 10 minute segment of producers talking about environmental risks as part of the program. Likewise for production, price, human resources, financial, and/or public relations workshops/meetings.

Suggested Workshop Outlines (Agendas and Itinerary)

On the pages that follow, there are four teaching outlines that offer an agenda and itinerary for how the curriculum materials can be used. Two of the suggested outlines are based on using the “Dairy Risk Management: Take Charge of Your Future” video, and two are based on using the Bella Acres case study. Within each of the pairs there is a full workshop outline based on 4-4½ hours, and a short 1½-2 hour workshop outline.

Note, that these are just suggested teaching outlines. There are a variety of other ways to use the materials including short 10-15 minute segments that are part of other meetings, or some may even find it advantageous to use both videos as part of a program.

GOT RISK Workshop Facilitator Preparation

Workshop Preparation

1. *Make (or order) copies of the Participant Packets. One for each participant in the workshop. The Participant Packets include the following sections*
 - *Participant Packet A [Blue] Pre and Post Workshop Survey and Warm Up Exercise [Blue]*
 - *Participant Packet B [Off-White] Probability Exercises and Slide copies*
 - *Participant Packet C [Green] Risk Assessment and Planning materials for hands-on learning part of the workshop*
 - *Participant Packet D [Pink] Risk Tolerance Test and Evaluation*
 - *Participant Packet E [Purple] Extra Risk Assessment and Planning worksheets, Table 1, and Follow up Plan*

Stapling each of the color packets and placing in a pocket folder is one suggestion for distribution. Also, a small three ring binder works well. Maintaining the color identification is very helpful for teaching.
2. *Make flip charts (preferably) or overheads [primarily if using Bella Acres case study]*
 - *One page for each of the six overall categories of risk.*
 - *Be sure to have some masking tape to tape the flip charts up for all to see.*
3. *Flip Chart/Overhead pens. Enough for two pens per group.*
4. *Visuals for facilitators presentations. Either:*
 1. *provide equipment for using a powerpoint presentation, or*
 2. *make overheads of the slides (hardcopies for overheads are available upon request from Kevin Bernhardt (608) 342-1365 or bernhark@uwplatt.edu, or*
 3. *use the participant's copies of the slides that are handed out to them.*
5. *Review the Facilitators notes.*

GOT RISK Workshop Suggested Full Day Agenda Using the Bella Acres Case Study

Suggested Four Hour Agenda and Time Table

<i>Clock</i>	<i>Time</i>	<i>When Task is finished (based on a 10:00 to 2:00 workshop)</i>	<i>begin</i>	<i>10:00</i>	<i>Start Program</i>
20	10:20	I. <i>Getting Started [Participant Packet A (blue)]</i>			
		A. <i>Warm Up Exercise</i>			
		B. <i>Pre workshop evaluation</i>			
		C. <i>Probability Exercise</i>			
20	10:40	II. <i>Facilitator Presentation - What is Risk and What is Risk Management [Facilitator Packet B (off-white)]</i>			
. 1½- 2 hrs.	12:30	III. <i>Risk Assessment and Plan Experiential Exercise [Participant Packet C (green)]</i>			
		A. <i>Preparation (5 min)</i>			
		B. <i>Show the Bella Acres Case Study video (25 min)</i>			
		C. <i>Hands-on Risk Assessment and Planning Exercise (60-90 min)</i>			
		S <i>large group: identify overall categories of risk & sources (10)</i>			
		S <i>small group: identify and prioritize specific sources of risk in Bella Acres (20)</i>			
		S <i>report back to the large group (20)</i>			
		S <i>small group: develop risk management strategies for Bella Acres (15)</i>			
		S <i>report back to large group (15)</i>			
		S <i>risk management action plan (10)</i>			
30	1:00	<i>Lunch</i>			
15	1:15	IV. <i>Risk Tolerance Evaluation [Participant Packet D (pink)]</i>			
30	1:45	V. <i>Participants Develop a Risk Assessment and Plan For Their Own Operation. [Participant Packet E (purple)]</i>			
5	1:50	VI. <i>Complete and Turn-in Follow up Plan [Participant Packet E (purple)]</i>			
10	2:00	VII. <i>Post Workshop Evaluation [Participant Packet A (blue)]</i>			

GOT RISK Workshop Suggested 1½-2 Hour Agenda Using the Bella Acres Case Study

Suggested 1½-2 Hour Agenda and Time Table

Time

- 15 I. **Getting Started [Participant Packet A (blue)]**
A. Warm-up
B. Probability Exercise
- 20 II. **Facilitator Presentation - What is Risk and What is Risk Management [Participant Packet B (off-white)]**
- 70 III. **Risk Assessment and Plan Experiential Exercise [Participant Packet C (green)]**
A. Preparation (5 min)
B. Show the Bella Acres Case Study video (25 min)
C. Hands-on Risk Assessment Exercise (40 min)
- Suggestions for saving time include:
C when video is over, remind participants of the overall categories only, and then assign categories to small groups
C rather than a flip chart, have small groups complete an overhead version of the Risk Assessment worksheet for presentation
C have groups do column A first (sources of risk), then go back and prioritize (columns B, C, and D), and then pick the top 1 or 2 priority risk and develop management strategies (column E).
C present the whole works one time to the large group and then in a very quick summary way.
C do not have participants complete the Risk Management Action Plan. If time remains, just present it yourself in a summary way.
- 10 IV. **Risk Tolerance Evaluation [Participant Packet D (pink)]**
- 5 V. **Evaluation**

GOT RISK Workshop Suggested Full Day Agenda Using “Dairy Risk Management: Take Charge of Your Future” Producer Interviews Video

Suggested 4½ Hour Agenda and Time Table

<i>Clock</i>	<i>Time</i>	<i>Time When Task is finished (based on a 10:00 to 2:30 workshop)</i>	<i>begin</i>	<i>Start Program</i>
20	10:20	I. Getting Started [Participant Packet A (blue)]		
		A. Warm Up Exercise		
		B. Pre workshop evaluation		
		C. Probability Exercise		
20	10:40	II. Facilitator Presentation - What is Risk and What is Risk Management [Participant Packet B (off-white)]		
. 1½ hrs.	12:00	III. Risk Assessment and Plan Experiential Exercise [Participant Packet C (green)]		
		A. Preparation (5 min)		
		B. Show first three segments of the DRM: Take Charge of Your Future video. Each segment is a category of risk, e.g., price, financial, etc. (. 25 min)		
		C. Hands-on Risk Assessment and Planning Exercise - 1st three categories of risk		
		S Based on the three categories of risk shown, individuals identify sources of risk and prioritize them for their operations (10 min)		
		S Discuss/share results in small groups (10 min)		
		S Individuals identify risk management strategies (10 min)		
		S Discuss/share results in small groups (10)		
		S Discuss/share results in large group (10)		
30	12:30	Lunch		
15	12:45	IV. Risk Tolerance Evaluation [Participant Packet D (pink)]		
. 1½ hrs.	2:15	V. Back to Risk Assessment Exercise - 2nd three categories of risk - repeat steps as shown above		
5	2:20	VI. Complete and Turn-in Follow up Plan [Participant Packet E (purple)]		

10 2:30 VII. *Post Workshop Evaluation*

GOT RISK Workshop Suggested 2 Hour Agenda Using “Dairy Risk Management: Take Charge of Your Future” Producer Interviews Video

Suggested 2 Hour Agenda and Time Table

Time

- 10 I. ***Getting Started [Participant Packet A (blue)]***
 A. ***Warm Up Exercise***
- 20 II. ***Facilitator Presentation - What is Risk and What is Risk Management
[Participant Packet B (off-white)]***
- 70 III. ***Dairy Risk Management: Take Charge of Your Future [Participant
Packet C (green)]***
 1. ***Preparation (5 min)***
 2. ***Show “DRM: Take Charge of Your Future” video (. 40 min)***
 2. ***Hands-on Risk Assessment Exercise (25 min)***
 S ***time is short, so you may want to just have individuals work on
their own to identify, prioritize, and develop strategies across
the categories of risk as they see fit. Or, another alternative is
to pick one area, have individuals work on it, and share results.
This second alternative gives individuals an opportunity to learn
the process, but also learn by sharing with others.***
- 15 IV. ***Risk Tolerance Evaluation [Participant Packet D (pink)]***
- 5 Misc.

Facilitator's
“How To”
Manual

Facilitator Instructions

I. Getting Started: Warm-Up Exercise and Pre and Post Workshop Evaluation [Participant Packet A]

A. Warm Up Exercise:

You want to set the tone as soon as the participants walk in the door that risk is a comprehensive challenge that includes price (too low or too high), farm transfer (tax liability), production (stray voltage, quality feeds), financial (increasing interest rates, meeting cash flow), human resources (milker fails to show up), urban sprawl, environmental, etc. Any one of these can cause harm to the dairy business from minor inconvenience to business failure. As preparation for yourself, you may want to review table 1 and 2. Following is one idea for how you may be able to set the tone.

1. As they walk in the door, give them the Participant Packet A titled “Pre and Post Workshop Survey and Warm Up Exercise”. In the packet there is a warm up exercise titled “Warm Up Exercise” that asks the question, “name three things that could potentially happen this next year that could impact in a negative way your operation.” Have the participants complete the question right away before the workshop officially begins. Then, as an introduction, have participants introduce themselves and list the three risks that they recorded.

- Another idea is to have each participant share their responses with others as a “get to know you” exercise. When the time comes to start, all participants have met each other and already have opened up their minds to the many different types of risk that the dairy farm faces.*
- Anticipating that many may say decreasing prices or adverse weather, you may want to watch what ideas the participants are coming up with and plant a few “noncommon” ones as well such as urban encroachment, employee not showing up for the morning milking, or even something humorous such as your daughter eloping (or perhaps your daughter deciding not to elope and instead have an expensive wedding!).*

B. Pre and Post Workshop Evaluation:

- 1. Have participants complete the “pre workshop” part of the evaluation before the workshop begins.*
- 2. Have participants complete the “post workshop” part of the evaluation at the conclusion of the workshop.*
- 3. Collect the surveys, evaluate, and provide information to Planning and Reporting system under the Risk Management Team.*

C. Probability Exercise [Participant Packet B]

1. *Understanding Probability: Put the participants to work right away by having them complete Probability Exercises 1-3.*

The purpose of exercises 1-3 is to get the participants in the frame of mind to think of risk in probability terms, especially the “normal distribution (see slide 10). The nature of a risky situation is that you do not know what the outcome will be.

However, often you do know that there is a range of outcomes and some are more likely to result than others. In laymen’s terms, that is the definition of probability which is the foundation for risk. Probability Exercises 1-3 will hopefully lead participants to plotting out a “normal” distribution and instill the idea of thinking about risk through the rubric of probabilities.

S *Ask the participants to complete Probability Exercises 1 and 2*

S *Now have the participants plot their answers to exercises 1 and 2 onto the blank graph on exercise 3; and connect the dots.*

Once participants have completed the exercises, then tell them that you will get back to their findings in a few moments.

II. *Facilitator Powerpoint Presentation - What is Risk and Risk Management [slide 1]*
The goal of the powerpoint presentation is to walk the participants through what is the definition of risk and what is risk management. This part of the workshop is more the traditional lecture format. However, there is audience participation built into the powerpoint presentation. Participant Packet B has a copy of the slides for participants to use (three per page) with space for taking notes.

A. **What is Risk**

[Slide 2 - What is Risk]: When one hears the word risk, it usually conjures up some ideas about negative impacts that could occur - reduced profits due to depressed prices, losing the barn to fire, crop loss due to hail damage, reduced milk production, or death loss due to a disease outbreak. This definition is not too bad. Strictly speaking, these are the undesirable outcomes that result from some risk event, e.g., reduced milk production might be the undesirable outcome that occurs due to the event of employees making a mistake. As shown on the slide, a very simplistic definition is that risk exists if there is something you don't want to happen - having a chance to happen. Thus, if you have employees, then there is a chance they will make a mistake, and therefore, you have a risk.

[Slide 3]: Slide 3 provides a little more academic definition. Using the analogy from above, the higher the probability that employees will make a mistake that results in an undesirable outcome, then the more risk you face. Said another way, events are the stimuli that cause some outcome to happen, where that outcome can take on any degree of impact in the farm business.

Said yet another way, undesirable outcomes are the things that hurt such as decreased production. Events are the things that happen to cause the hurt, heat stress. Finally each of these events have a probability of happening, 65% probability of 90 plus degree weather. The combination of these three components describes risk.

[Slide 4]: This slide shows the components of risk in the form of a top-down flow chart. It also shows how the undesirable outcome can range from minor nuisance to major catastrophe. How important the risk should be to you depends on the probability of those outcomes. For example if there is a .000001% chance of the outcome being a minor nuisance and 45% chance it will be a major catastrophe, then you better get on the phone right now to manage that risk. If it is the other way around, then you may decide to do very little about the risk at this time.

[Slides 5-7]: Slides 5-7 go a little more in-depth on each of the components of risk. Slide 5 defines undesirable outcomes and provides some self-explanatory examples. Emphasize to the participants that undesirable outcomes are what hurts! Slide 6 defines Risk Event and provides some examples. Events are a step away from what

hurts the producer, they are what causes the hurt. For example:

<u>Event</u>	<u>Undesirable Outcome/Hurt</u>
<i>Weather event</i>	<i>decreased production</i>
<i>injury/death of an employee</i>	<i>lawsuit, emotional stress, guilt</i>
<i>surplus production of milk</i>	<i>low milk price thus lower income</i>
<i>widespread poor grain production</i>	<i>increased grain input prices</i>
<i>divorce or disagreement</i>	<i>disruption in business decision-making, loss of assets, etc.</i>
<i>downward slide in general economy</i>	<i>higher interest rates</i>

Slide 7 visually shows the concept of probability. Assume, at first, that milk prices are distributed (historically) according to the distribution (curve) “A”. That is, all milk prices that have occurred have ranged from around \$10 to \$14. At the same time as distribution “A” shows \$10 has occurred very little and \$14 has occurred very little, i.e., while it can happen the probability of \$10 or \$14 milk is very low. The probability of \$12 milk occurring,, however, is relatively quite high. The point to stress to the audience is that the curve is a visual way to show the probability concept of risk. Now, point out that if the distribution of prices we face changes, so does our risk. If the real distribution of prices we faced was curve B, then the risk for \$10 and even lower milk prices increases. Finally, distribution C represents even great risk.

Note, that along with a greater probability of lower prices also comes a greater probability of higher prices. This is not an unusual occurrence. It is often the case that if there is more risk inherent in some undertaking, then the potential payoff can be higher as well.

[Slides 8-10 - Back to the opening Probability Exercise (Exercises 1-3)]: *Slides 8-9 show the answer to what the participants curve should look like in Probability Exercise 3 that they completed at the beginning of the workshop. At this point, ask the participants to refer back to the exercises they completed at the very beginning and have them compare their graph (exercise 3) with the solid line on slides 8 & 9. If their graph has a similar shape (mountain shape) then they have just passed the statistics course on understanding the concept behind the “normal” distribution. You might also note that the long tail to the right side of the distribution is the result of unusually high prices such as those at the end of 1998.*

Slide 10 gives the low third, average, and top third numerical answers to exercise 1. This graph also illustrates another advantage of using some statistics. Standard Deviation is a statistic that measures variability. Visually, the higher the standard deviation the wider the normal distribution, i.e., the more likelihood of getting prices that are either much larger than average or much smaller. The standard deviation also has a handy interpretation which is that two thirds (or about 68%) of all observations

fall within one standard deviation of the mean. Thus, the numbers recorded on slide 10 represent the low and high 16th percentile, another potential benchmark.

[Slide 11 - Overall Categories of Risk]: *The opening Probability Exercises 1-3 illustrate price risk, which is a particular category of risk that we may be fairly familiar with. However, there are many risks that can cause hardship in a farm business. Risks can be categorized in a number of different ways. For example, the USDA-Risk Management Agency refers to five overall categories of risk:*

2. *Production*
3. *Marketing*
4. *Legal*
5. *Human resources*
6. *Environmental*

Slide 11 shows these and other potential categories of risk. These categories do not mean much and do not do us much good in terms of risk management other than help channel our thinking. However, to that end, categorization is useful. Facilitators should note that later in the workshop, one of the videos and the worksheets use six overall categories as follows:

1. *Production*
2. *Price*
3. *Human Resources*
4. *Environmental*
5. *Financial*
6. *Public Relations*

The other concept shown in slide 11 is the measuring stick upon which risks and risk management decisions might be assessed, that is, the impact that decisions will have on the financial health of the business and ultimately on farm business and family goals.

[Slides 12-13]: *While we defined the components of risk earlier, we only hinted at how those components react with each other to change the importance of the risk we face. The importance of the risks we face increases the more we don't know:*

1. *all the potential outcomes that could occur?*
 - *the less you know about what outcomes could occur the more risk there is in the situation, or visa versa the more you know about the outcomes that could occur then the less risk there is in a situation.*
2. *the probability, or likelihood, of each outcome occurring?*
 - *the less you know which outcome is likely to occur, the more risk there is in the situation and visa versa.*

3. *the cost of the undesirable outcome*
 - *the less you know about the cost of the undesirable outcome the higher the risk and visa versa.*

Slide 13 illustrates the same message, but stated in reverse, that is, the more information, knowledge, and understanding we do have about each of these three factors, then the better able we will be to make appropriate risk management decisions. An important point to note, is that increased information alone can be a major step in becoming a better risk manager. Simply put, information is power!

A. **What is Risk Management**

[Slide 14]: Stated simply, Risk Management is assuring an outcome. There are various ways to define risk management, but slide 14 states the definition in its simplest form, and that is assuring what the outcome of some event will be. If you lock in a price for April milk production, then you have assured your price for that month. You now no longer have any price risk for that month. You of course still have production risk and etc., but you are now assured of the price you will get, i.e., you know with 100 % probability what your outcome will be.

Note, that the cartoon figures in slide 14 show a somewhat humorous way to think of risk management. Rather than being happy only when things go up, say prices, or sad when they're down, risk management is being happy even when factors in the world are not going the "right" way!

[Slide 15]: Slide 15 uses the normal probability curve that we used to visually show what risk is, to also show risk management. In a visual way, risk management is trying to "squeeze" in the probability distribution, i.e., assuring an outcome. For example, if you lock in a price then your distribution squeezes down to a single vertical line at that price (100% probability of that price).

VERY IMPORTANT POINT!!!!

This is a good time to stress that risk management often is not an activity that increases profits, rather, it is an activity that assures some profit or asset level.

As an analogy, think of what you are doing when you purchase car, fire, or life insurance? You pay money for these insurances every year and yet how often do you ever get anything back? Virtually never! Then why pay the premiums year after year? Answer: because if the bad thing does happen, you want to assure what your asset base is going to be when the wreck is over. You don't make any new profit out of these types of risk management, in-fact, you probably lose profits, i.e., it is an expense. So, when you think "risk management", don't think profits - think assuring an outcome.

You can interject a little humor with the risk management strategy of life insurance. When you think of the one way your business can "collect" on your life insurance, it is not an option you would choose. The serious point is that you continue to pay the cost of life insurance not to make a profit, or with any hope of every collecting on it, but just to assure the asset base of the business if indeed the undesirable outcome happens.

[Slide 16]: Risk management can be accomplished in a variety of ways. Government price supports are a risk management tool that is virtually external to the farm manager. Other risk management strategies are insurance or contract based, while yet

other risk management efforts might be management based such as using different maturity varieties to avoid heat stress hitting your entire crop at critical times. Slide 16 shows five overall ways to manage risk:

- 1. Reduce the probability that an event will happen: e.g., if you don't smoke, you will have less probability of dying or becoming disabled from smoking induced health problems.*
- 2. Reduce the impact if the event does occur: e.g., if high heat stress days do occur, then having ventilation, fans, sprinklers, lots of access to water, etc. can reduce the impact of low milk production.*
- 3. Transfer the cost of an undesirable outcome to someone else: e.g., buying hail insurance transfers the risk of crop loss from you to the insurer for the cost of a premium.*
- 4. Avoid potential events thus providing a zero probability that they will occur: e.g., if you do not want the risk of employees or children having a tractor accident, then do not allow employees or children on tractors (as long as that instruction is followed, you have avoided the potential for the risk to even occur).*
- 5. Do nothing, let the risk happen, and be prepared to bear the consequences: e.g., allow your hired employees to drive the tractor for farm business purposes. The risk is that they will get injured or killed, but you'll deal with it when and if it happens (probably not a good example, because in the very least you could give them some training which would be a risk reduction strategy).*

Another way to think about risk management strategies is that they can be external or internal. External are those strategies that involve someone outside of the farm taking on some of your risk, e.g., insurance or production contract type strategies come immediately to mind. Internal strategies are those that are more management based within the farm operation, i.e., things that the farm manager does such as crop rotations, sprinklers, employee safety meetings, environmental containment facilities, health checkups, etc.

[Slides 17-30]: Slides 17-30 provide several examples of risk and risk management using the visual display of the normal curve. Remember, the curve is a visual illustration of the range of outcomes that could happen, say milk prices from \$9.00 to \$17.00. As you employ risk management strategies (internal or external) you change the distribution of potential outcomes you face.

As another example, you could draw a curve that shows the range of probabilities of how long you will live. If you are 40 years old, then that is where the curve would start, i.e., there is a probability that you might die tomorrow, but it is very little. If we assume you are a heavy smoker, drink too much, have a heavy fat diet, do no exercise, and never get a health check up, then the curve might peak at age 55. Given the current conditions, this is the distribution of outcomes you face. However, you could employ some risk management strategies to change the distribution you face. You

could quit smoking, change your diet, work out, and get periodic health exams. This will change the distribution you face by sliding it over to the right (peak at a higher age, say 80) and certainly reduce the probability of a younger death.

Note, distributions do not have to be normal (symmetrical), and in-fact often are not. For example, a distribution may have a long tail to one side, be uniform, etc. Risk management strategies, likewise do not always just squeeze the distribution in. Slides 17 and 18 show two price risk management strategies that do something other than just squeeze in the distribution.

Since the slides and discussion have often used price risk as an example (a familiarity of the author), slide 19 reminds participants that many other risks can be visually evaluated in the same way. Slides 20-30 then provide several examples.

The point to make is that risk management can be accomplished in a variety of ways. Each may have a different way of impacting the distribution of potential outcomes that the participant faces.

[Slides 31-32]: Process for Executing Risk Management

While there are many ways to consider how to conduct risk management, one model is stated on slide 32:

- 1. being aware of the risks faced,*
- 2. evaluating the impact of those risks*
- 3. deciding how to address the risks*
- 4. implementing the decisions*
- 5. control, i.e., assure decisions are implemented and adjust accordingly*

Recall, that one of the ways to define risk was not having knowledge of potential outcomes, probabilities, or costs of negative outcomes. It thus follows that a step towards risk management is gaining knowledge of these three factors, i.e., becoming aware of the risks faced and the potential impact of those risks. Simply Put, Knowledge is Power. It is not information itself that reduces risk, but what a person does with the information, i.e., the more information you have then the better the likelihood you will make appropriate decisions.

[ASIDE] In his book “My American Journey” Colin Powell, 4 star general, past Chairman of the Joint Chiefs of Staff, and current U.S. Secretary of State said that he had a 70% rule that he would follow when making decisions. When he felt he had 70% of the information, then he would make a decision. Same goes for risks on the dairy farm. Using the Powell model, if you have gained 70% of the information on potential outcomes, probabilities, and costs then your ability to

make better decisions will likely be improved.

[Slide 33]: Slide 33 illustrates a visual means to evaluate the importance of a risk based on two major criteria - 1) probability that the risk will occur and 2) potential impact if it does occur. If you should do something, and if so how quickly and to what degree is based on the combination of these two criteria.

Note for facilitators: The Risk Assessment worksheets that will be used later in the workshop ask participants to prioritize the risks they face. The prioritization involves assigning a numerical value for probability that it will occur and impact if it does occur. Participants will then add these two values to get an overall score where that score represents the priority or importance of the risk. The numerical exercise is based on the table shown in slide 33.

[Slide 34]: Slide 34 illustrates a very important concept in risk management and that is that there is no one right answer to what risk management steps an individual should take. The “right” decision depends on the characteristics of the operation and the individual decision-maker. In other words, two people can make completely different decisions and both be right. The “right” decision depends on 1) the capacity of the operation to handle risk and 2) on the risk preferences of the individual.

- 1. Some operations are in a position to handle more risk than others. For example, the risk of increasing interest rates has a much bigger potential negative impact on an operation that is highly leveraged than on one that is not highly leveraged. Thus, the highly leveraged operation may take different steps towards reducing that risk compared to the low leverage operation.*
- 2. Individuals also have a different tolerance for risk. Some people enjoy the thrill of taking a risk, while others will avoid it at all costs. Complicating this is that there is often a tradeoff between risk and profitability (**diagram in slides 34& 35**). The more risk you are willing to take the bigger the potential payoff, but you have to be able to afford the risk of the negative outcome. On the other hand, if you want very low risk then your payoff goes down as well. Each individual has their own preference on where they feel comfortable. What makes family decision-making more interesting is if two partners, spouses, father and son, etc. have different preferences. There will be a fun and informative exercise later in the day that addresses the personal preferences that people have, a sort of “risk personality” test.*

[Slide 36]: Finally, an important point to think about is that there is a team of people ready to help in all these steps of risk management. You are the CEO of this team, but you are not alone. There are other team members out there ready to aid you in evaluating your risks, developing courses of action, and implementing your decisions.

Risk Assessment and Planning

Experiential Exercise

Using Bella Acres Case Study

[Participant Packet C]

Risk Assessment Using Bella Acres Case Study [Participant Packet C]

III. Risk Assessment and Planning Experiential Exercise - Using Bella Acres

The Risk Assessment is the hands-on part of the workshop. It involves watching a video that will hopefully get the creative juices flowing, and then following up with the completion of a worksheet risk assessment exercise. The exercise asks the producer participant to identify potential risks, prioritize them, and develop strategies for addressing the risks.

A. Facilitator Instructions for Workshop Preparation

- 1. For your own preparation suggestions, see “Facilitator Instructions for Workshop Preparation” in the Preface section.*
- 2. Note: Developing a risk management plan for Bella Acres is a major time consuming activity. However, the real goal is to get the participants to then follow up this exercise with the development of a risk management plan for their home farm. So, be wary of the clock and keep things moving along. With respect to the case study, thoroughness is not the goal, learning a process for identifying, prioritizing, and managing risks is the goal.*
- 3. Preparation prior to showing the Bella Acres video, handout or refer participants to **Participant Packet C**. Participant Packet C includes a one page picture of the Bella Acres Family (for reference), a short (3 page) written summary of the Bella Acres Case Study, and some worksheets and other aids.*
 - a. Refer the participants to the picture of the family tree for reference while the video is showing*
 - b. Instruct participants to pull out the worksheet titled “Overall Categories and Sources of Risk”*

***S** as the participants watch the video, tell them to jot down sources of risk that they either see in the pictures or hear in the discussions.*

B. Show the Bella Acres Case Study video

C. Hands-On Risk Assessment and Planning Exercise:

Upon conclusion of the video, have participants team up in groups of approximately 3-5 people with the goal of identifying the sources of risk they saw or heard in Bella Acres.

1. *Before beginning the small group exercise, take a couple of quick minutes to ask participants to identify some overall categories of risk that Bella Acres faces. This is a way to do a quick debriefing of the case study. However, don't take a long time to do this part.*
 - a. *may want to write these down on a flip chart or overhead*
 - b. *then remind the participants that overall categories of risk have no special significance other than to help channel our thinking about the risks we face. Show slide 11 again which shows one way to label overall categories of risk. Again, in and by itself, the categories (number of them or name of them) is not important other than helping us think through what the "real" sources of risk are on our farm.*
 - c. *Finally, go around the room, without recording it, and just ask a few participants to name one specific source or risk under each of the categories as shown on slide 11. Note, if the participants came up with a new category that seems to mean something to them, then feel free to use it. This is also an opportunity to be sure that the participants understand what a "source of risk or risk event" is, i.e., it is that event that causes the hurt or undesirable outcome.*
 - d. *Pass out, or refer the participants to the "Risk Assessment Worksheets" and the accompanying "Scoring Instructions for Risk Assessment Worksheets". Explain the worksheets. Explain that over the next few steps the small groups will be completing a Risk Assessment of Bella Acres.*
 - S *Note, there is a separate Risk Assessment Worksheet for each of the overall categories of risk. Also, there is a generic one as well.*

2. *Assign each small group one or two of the overall categories of risk. Note, it makes no difference if you have more than one group covering the same overall category of risk (say two groups doing price risk), just try to have all categories covered at least by one group.*
 - a. *Instruct the small groups to comb the case study, and their own knowledge and experience, and go into detail in determining what the specific sources of risk are within each overall category. Again, remind them that sources of risk are those events that cause the "hurt". For example, an employee having an accident with farm equipment is the source of risk that causes the hurt or undesirable outcome of a lawsuit.*
 - b. *Assign a recorder for each group. Provide each group's recorder with flip chart paper that has "Risk Event - Cause or Source of an Undesirable Outcome". This label is column "A" of the Risk Assessment Worksheet. Also, have the recorder use a different flip chart page for each category of risk their group is working with. You could use an overhead too, but a flip chart page will help out more in later exercises.*
 - c. *Your role as a facilitator is to assure that the groups are being as thorough as*

they can in identifying specific risks. Remind the groups to be open and thoroughly dig out as many risks as they can no matter how trivial or unlikely it may seem. Prioritizing the list is the next step.

- d. *When the small groups have completed recording the sources of risk that they see, have them go back to each one and score it based on the risk position scoring as shown on the Risk Assessment Worksheets (columns B, C, and D). Be sure to have them put the final risk position score on the flip chart next to each source of risk.*

3. *Report back to the large group:*

Bring everybody back together and then go around the room and have each small group come up and present their results on what they saw as the sources of risk and priority of importance to address it. As they do so, hang each of the flip charts up for all to see. Be sure to have the presenter note the top three most important sources in terms of priority for addressing it (circle or star them on the flip chart)

- a. *give the floor completely to the presenter to start with. Once he/she is finished then prompt the rest of the participants for comments, reaction, additional ideas, personal experiences, etc.*
- b. *for sake of time, if groups evaluated more than one category, then have them present only one to start with and then after every group has had an opportunity to present, start around again*
- c. *Note, depending on the “windiness” of your participant spokesman, you may have to have a heavy hand in keeping the reports short. The goal is to quickly present the small groups findings and then leave time for discussion and reaction from the audience.*

4. *Developing Risk Management Strategies*

- a. *First, remind the participants what Risk Management Strategies are (explanation page included in Participant Packet C), i.e., they can be external or internal and likely fall within one of the categories listed below:*

C reduce the probability that an event will happen: e.g., if you don't smoke, you will have less probability of dying or becoming disabled from smoking induced health problems.

C reduce the impact if the event does occur: e.g., if high heat stress days do occur, then having ventilation, fans, sprinklers, lots of access to water, etc. can reduce the impact of low milk production.

C transfer the cost of an undesirable outcome to someone else: e.g., buying hail insurance transfers the risk of crop loss from you to the insurer for the cost of a premium.

C avoid potential events thus providing a zero probability that they will occur: e.g., if you do not want the risk of employees or children

having a tractor accident, then do not allow employees or children on tractors (as long as that instruction is followed, you have avoided the potential for the risk to even occur).

C do nothing at let the risk happen and thus be ready to bear the consequences: e.g., allow your hired employees to drive the tractor for farm business purposes. The risk is there that they will get injured or killed, but you'll deal with it when and if it happens (probably not a good example, because in the very least you could give them some training which would be a risk reduction strategy).

b. Second, have the small groups now use the Risk Assessment Worksheet to develop Risk Management Strategies (column E). Have them start with what the group considered the most important source of risk first and then proceed on to the 2nd most important, etc. as time allows.

S be sure to encourage the groups to develop more than one strategy per source of risk, and also encourage them to develop both internal and external strategies. For example, dad dying or becoming disabled may be a source or risk that is critical to do something about. Risk strategies may be disability and life insurance (external strategies that transfer the cost of the undesirable outcome), but other strategies include: quit smoking, annual check ups, or family exercise (internal strategies that reduce the likelihood of an event and potentially the impact if an event does occur). Another example is a farm family in Nebraska that determined that urban encroachment was a major source of risk for their operation. For ways to address the risk they listed hosting a neighborhood barbeque and hayride, turning a few of their acres over to neighbors for gardens and pumpkin patch, etc. They did these things in part to just be good neighbors, but the idea to do so was a result of assessing their operation's risk.

5. Small groups share Risk Management Strategies

Have each small group report back their results and encourage other participants to comment or add to the list other potential external or internal strategies.

6. Last Step: Develop a Risk Management Action Plan

Handout or refer the participants to the "Risk Management Action Plan" worksheet. Note, that the purpose of this worksheet is to take the results of the Risk Assessment one step further. In the Risk Assessment, the participants identified, prioritized, and developed strategies for addressing risk. Now, the Risk Management Action Plan starts with what those strategies are, and details how they will be implemented. The concept is pretty straight forward so it is suggested that you take very little time for this. You may want to have each small group take one strategy and detail it out, or perhaps better yet, just take a couple and detail

them in front of everyone on an overhead or flip chart.

- a. A point to emphasize is that some strategies might have multiple steps required to accomplish them, and here is the place to detail those steps. The simple truth is that tasks, small are large, are successfully implemented by taking that very first baby step. It may be a phone call, gathering of records, or setting up a meeting with your lender. Whatever it is, write it down and take that first baby step!*

Additional Food-For-Thought:

- 1. if there are spouses or partners from a single operation, you may want to put them in different groups*
- 2. might want to start by asking for groups to volunteer for a category.*
- 3. don't worry about more than one group evaluating the same category, just make sure that at least one group is addressing each category.*

This completes the participant driven Risk Assessment exercise for the Bella Acres Case study. You may want to emphasize to the participants that in a relatively short period of time they have completed a rough draft of the first four steps of the risk management process (slide 32) - being aware of the risks faced, evaluating the impact of those risks, deciding how to address the risks, and developing an implementation plan.

Congratulations are in order!! And now for a little break (and fun) let's see what kind of "Risk Personality" the participants have!

Risk Assessment and Planning

Experiential Exercise

***Using “Dairy Risk Management: Take Charge
of Your Future” Producer Interview Video***

[Participant Packet C]

Risk Assessment

Using Dairy Risk Management: Take Charge of Your Future

[Participant Packet C]

III. Risk Assessment and Planning Experiential Exercise - Using the “Dairy Risk Management: Take Charge of Your Future” Video

A. Facilitator Instructions for Workshop Preparation

- 1. For your own preparation suggestions, see “Facilitator Instructions for Workshop Preparation” in the Preface section.***
- 2. Pass out **Participant Packet C** and explain:***
 - a. Participant Packet C includes some information for Bella Acres (picture of family tree and 3 page summary of case study). This information will not be needed, so either pull the pages out ahead of the workshop or instruct participants to ignore them.***
 - b. Risk Assessment Worksheets are included for each overall category of risk, plus a non designated page.***

B. Show the first 2-3 segments of “Dairy Risk Management: Take Charge of Your Future”

C. Hands-On Risk Assessment and Planning Exercise

- 1. Upon conclusion of the video segment, briefly note some of the undesirable outcomes that could result (as shown on the Risk Assessment Worksheet). Also, note some of the sources of risk that can cause the undesirable outcomes (as shown on the worksheet).***
- 2. Have participants individually begin completing a Risk Assessment of their home operation.***
 - a. Have participants begin by recording what they believe to be sources of risk that they face in their operation (column A of the appropriate Risk Assessment Worksheet).***
 - Remind the participants that sources of risk are those events that cause the “hurt”. For example, an employee having an accident with farm equipment is the source of risk that causes the hurt or undesirable outcome of a lawsuit.***
 - Also, remind participants to be open and thorough in digging out as many risks as they can no matter how trivial or unlikely they may seem. Prioritizing the list is coming up.***

- b. *Now, have individuals look back through their column A list and begin to prioritize the threat to their operation by completing columns B, C, and D.*
 - *note and explain the scoring instructions*
 - c. *Have participants put an “X” by all those sources of risk that have a total score of five or greater.*
 - *when completed, note to the producers that by their own evaluation, these are risk management challenges that they should be addressing now.*
3. *Put participants in small groups for discussion.*
 - a. *have participants share with each other potential sources of risk that they face, giving individuals an opportunity to learn from each other and add to their own list in the process if appropriate.*
4. *Back to individual Risk Assessment*
 - a. *Have participants return to evaluating their own operation by beginning with the highest scored source of risk first, and develop a variety of Risk Management Strategies to address the risk.*
 - *First, remind the participants what Risk Management Strategies are, i.e., they can be external or internal and likely fall within one of the categories listed below:*
 - C *reduce the probability that an event will happen: e.g., if you don’t smoke, you will have less probability of dying or becoming disabled from smoking induced health problems.*
 - C *reduce the impact if the event does occur: e.g., if high heat stress days do occur, then having ventilation, fans, sprinklers, lots of access to water, etc. can reduce the impact of low milk production.*
 - C *transfer the cost of an undesirable outcome to someone else: e.g., buying hail insurance transfers the risk of crop loss from you to the insurer for the cost of a premium.*
 - C *avoid potential events thus providing a zero probability that they will occur: e.g., if you do not want the risk of employees or children having a tractor accident, then do not allow employees or children on tractors (as long as that instruction is followed, you have avoided the potential for the risk to even occur).*
 - C *do nothing at let the risk happen and thus be ready to bear the consequences: e.g., allow your hired employees to drive the tractor for farm business purposes. The risk is there that they will get injured or killed, but you’ll deal with it when and if it happens (probably not a good example, because in the very least you could give them some training which would be a risk reduction strategy).*
 - S *be sure to encourage the participants develop more than one strategy per*

source of risk, and also encourage them to develop both internal and external strategies. For example, dad dying or becoming disabled may be a source or risk that is critical to do something about. Risk strategies may be disability and life insurance (external strategies that transfer the cost of the undesirable outcome), but other strategies include: quit smoking, annual check ups, or family exercise (internal strategies that reduce the likelihood of an event and potentially the impact if an event does occur). Another example is a farm family in Nebraska that determined that urban encroachment was a major source of risk for their operation. For ways to address the risk they listed hosting a neighborhood barbeque and hayride, turning a few of their acres over to neighbors for gardens and pumpkin patch, etc. They did these things in part to just be good neighbors, but the idea to do so was a result of assessing their operation's risk.

- b Instruct participants to complete the Risk Management Action Plan worksheet.
 - Note, that the purpose of this worksheet is to take the results of the Risk Assessment one step further. In the Risk Assessment, the participants identified, prioritized, and develop strategies for addressing risk. Now, the Risk Management Action Plan starts with what those strategies are, and details how they will be implemented.
- S Instruct the participants to record on the Risk Management Action Plan worksheet the specific steps required to implement the risk management strategies as shown in column E of the Risk Assessment Worksheet. For example, assume the source of risk being addressed is the potential for interest rates to increase thus causing the undesirable outcome of increased interest payments. Given this source of risk, then one risk management strategy may be to restructure debt to more fixed rate loans. The first column of the Risk Management Action Plan worksheet might look as follows:

Restructure debt [Risk Strategy from the Risk Assessment Worksheet]

S *set-up appointment with the lender to discuss restructuring [action step]*

S *ask to consolidate debt under a fixed rate loan [action step]*

S *sign the new fixed rate loan [action step]*

- S Another exercise that might work well for some participants is to stress the importance of the first “baby step”. Tasks, whether big or small, have to start by taking the first baby step. These can almost get humorously absurd, e.g., pick up the phone and dial 348 ----. While laughable, the Hoover Dam was built by taking the first absurdly simple

baby step. The example above could be amended as follows:

Restructure debt [Risk Strategy from Risk Assessment Worksheet]

S look up the lenders number and call her/him [first baby action step]

S set-up appointment with the lender to discuss restructuring [action step]

S ask to consolidate debt under a fixed rate loan [action step]

S sign the new fixed rate loan [action step]

The other advantage of the “baby step” effort is that it gives you, the facilitator something easy and tangible to follow up with at a later date (“John, did you pick up the phone an dial 348 ---- yet?”)

- 5. Again, if appropriate, it may be useful to have the participants share their strategies in small group discussion. Encourage others to comment, offer additional ideas, etc. It may be especially useful to have the participants volunteer what their first baby step is going to be. This can be done in a somewhat humorous way, but also the public statement adds a little urgency to actually doing it.*
- 6. Finally, if time permits, you may encourage sharing and discussion among the large group. This may have an unintended consequence of encouraging participants to follow through with their plan. They have now publicly stated what they are going to do - that first baby step. As they see each other on the street, they can smile and say, I did it! You may even, in a humorous way, let them know that they can be each other’s enforcement police!!!*

Note: The goal of the hands-on exercise was two fold. First, was to have participant become aware of risks they might be facing and what they might be able to do about it through both watching the producer interviews on the video and through the small and large group interaction with fellow producers. The second goal was that along the way they were completing the Risk Assessment and Action Plan worksheets for their own farm business. The degree to which they have a fairly complete risk assessment and plan for their business will likely be different at each workshop and for each participant.

A judgement to be made by the facilitator at this point is whether to provide more time for participants to put some polish on their risk assessment and plan. Whether that is the decision or not, Table 1 (located in Participant Packet E) is an additional tool that participants can use. Table 1 is a partial list of sources of risk, impacts, and potential risk management strategies. It is an attempt at a checklist. Given the variety of farm businesses, risks, and means of addressing risk, no one table can be a complete list. However, table 1 might be useful as a “cheat sheet” so to speak in completing the Risk Assessment. It is not meant to be all encompassing (no checklist could be), rather as at

least a partial list of risks, strategies, etc.

You may choose to bring Table 1 out earlier in the process, perhaps even at the very beginning.

Personal Risk Tolerance Evaluation

[Participant Packet D]

Personal Risk Tolerance Evaluation

[Participant Packet D]

IV. Understanding Your Personal Risk Tolerance [Handout Participant Packet D]

It may happen that not all groups agree as to the priorities for risk management, or even on the sources of risk. Also, it may be interesting to see (in a somewhat humorous way) if spouses, father-son, or other partners agreed.

Recall, that in the slide presentation, it was stated that there is no one “right” risk management decision because 1) each operation has a different capacity to withstand risk and 2) each individual psychologically has a different capacity to withstand risk. The capacity of the business to withstand risk is outside the scope of this curriculum, but is a very important piece of information. Encourage participants to evaluate the capacity of their businesses through benchmarks such as leverage and solvency, repayment capacity, production efficiency measures, working capital analysis, and others.

This section provides a short, fun, and hopefully learning exercise for participant to evaluate their own personal/psychological tolerance for withstanding risk, i.e., their personal capacity to withstand risk.

A. INTRODUCTION

This section helps producers discover that different individuals have different levels of tolerance for risk. Ideally, all decision-makers in an operation should take the risk tolerance evaluation so that they can begin to understand the differences that may exist in the level of tolerance each has for risk. Those differences translate to different approaches to managing or in some cases totally avoiding risk.

Understanding ourselves, and others, is sometimes a very difficult and complex task. Through the centuries people have been studying people and developing instruments to help communicate and deal with each other. One of the first people to develop an instrument was Hippocrates in 450 BC who developed four styles of personalities of people. Since that time many others have developed instruments or assessment tools on personalities, learning styles and other characteristics. All of them are very similar in their descriptions and characteristics -- for the past 2500 years. This wealth of knowledge and consistency of data now allows us to develop another instrument to assess risk styles.

Each of us has a somewhat distinctive style when dealing with risk. These styles are very likely closely related to our personality styles. Dr. Larry Swain has worked with

thousands of rural people for over 15 years in determining why people do things the way they do. Dr. Swain and Matt Glewen, Agriculture Agent in Calumet County, Wisconsin have developed this instrument to assist people in determining their personal risk style.

This instrument is designed to give individuals a beginning look at themselves and how they approach and deal with risk. There may be some factors that cause people to change risk preferences over time. As we learn more about investments, get more experience, network with others and even get older, the risk preferences might change. The most important thing to remember is that we are not all the same in how we approach risk. There are definite styles and this instrument and explanation can help you understand yourself and others better.

B. OBJECTIVES

- 1. Participants will gain an understanding of their own personal level of risk tolerance.*
- 2. Participants will discover the differences in level of risk tolerance that exist among individuals and learn how these differences translate into different approaches to dealing with risk.*

C. INSTRUCTIONS

- 1. Instruct the participants to complete the Risk Tolerance Evaluation. Each question should be answered without a great deal of deliberation. It should take approximately 10 minutes for everyone to complete the evaluation.*
- 2. Review the instructions for scoring the evaluation with the participants. The instructions are provided to the participants at the end of the evaluation.*
- 3. Spend 10 to 15 minutes going over the four risk styles as outlined in the participants' material. Try to use real-life examples from your own experience to make the four risk styles clearer to the participants. An example of a risk avoider is a situation that developed during the drought year of 1988 where one of the partners in an operation insisted that hay be purchased at \$200 per ton to fill the barn in early summer rather than wait and take the small risk that rain would not come or that there would not be enough corn silage to provide forage needs.*
- 4. Try to get participants to understand how their own risk style and that of others in the operation will affect how decisions are made in regard to managing risk.*

Assessing Your Farm Business

[Participant Packet E]

Assessing Your Farm Business

[Participant Packet E]

V. *Participants Develop a Whole-Farm Risk Management Plan For Their Own Operation*

NOTE: This section is specific to those who have used the Bella Acres Exercise. Those who used the “Dairy Risk Management: Take Charge of Your Future” have already completed a Risk Assessment for their own operation.

This is the prize of the day. With their fresh experience in developing a whole farm risk management plan for Bella Acres, instruct each participant to now start over with a new set of Risk Assessment Worksheet and evaluate their own farm business.

- *It is up to the facilitator and ultimately the participants, but it may be useful to have spouses or other partners complete this task individually. This may aid in some conflict resolution down the road.*

Objective

The objectives are to get participants to complete:

1. *Risk Assessment of their farming business*
2. *Risk Management Action Plan*
3. *Follow up plan*

The temptation may be for participants to “head home” (physically or mentally) at the point of completing a risk management plan for the Bella Acres case study with the idea that they will take the worksheets with them and do their own assessment at home. However, we all know what will likely happen once they leave the door. On the other hand, if you can hold them and “force” them through an assessment and plan for their own operation, then that gives them something of value to walk home with. Once at home, they may be more tempted to act on it if there is a rough draft plan already written down.

A. *Process*

1. *Handout or refer to **Participant Packet E**, and briefly explain the materials, most of which they have already seen and worked with by this point.*
 - a. *Risk Assessment Worksheets specific to overall categories of risk*
 - b. *Risk Management Action Plan worksheets for detailing how risk management strategies will be implemented.*
 - c. *Table 1: Partial List of: Sources of Risk, Impacts, and Potential Risk Management Strategies*

- *Table 1 is an attempt at a checklist of sources of risk, impacts, and strategy alternatives. Given the variety of farm businesses, risks, and means of addressing risk, no one table can be a complete list. However, table 1 might be useful as a “cheat sheet” so to speak in completing the Risk Assessment. It is not meant to be all encompassing (no checklist could be), rather as at least a partial list of risks, strategies, etc.*

B *Instruct participants to begin completing the Risk Assessment Worksheets*

1. *It may be helpful to complete each column in full before going onto the next column, i.e., complete answering what the sources of risk are first, then go back and prioritize the list, etc.*
2. *When it comes to developing risk management strategies, for sake of time, you may want instruct the participants to first concentrate on those sources of risk that they have prioritized as the most important to address. To take the time to develop strategies for sources of risk that are of less importance may not only be time consuming, but participants may lose interest before they have addressed the important ones.*

C *Complete the Risk Management Action Plan worksheet*

1. *When the Risk Assessment worksheets are completed, instruct the participants to go back to those sources of risk, and begin with the source of risk that they ranked as most important to address.*
2. *Record on the Risk Management Action Plan worksheet the specific steps required to implement the Risk Management Strategies as shown in column E of the Risk Assessment Worksheet.*
 - a. *Instruct the participants to record the strategy and then the action steps required to implement that strategy. For example, assume the source of risk being addressed is the potential for interest rates to increase thus causing the undesirable outcome of increased interest payments. Given this source of risk, then one risk management strategy may be to restructure debt to more fixed rate loans. The Risk Management Action Plan worksheet might look as follows:*

Restructure debt [Risk Strategy from the Risk Assessment Worksheet]

S *set-up appointment with the lender to discuss restructuring [action step]*

S *ask to consolidate debt under a fixed rate loan [action step]*

S *sign the new fixed rate loan [action step]*

- b. *Another exercise that might work well for some participants is to stress the importance of the first “baby step”. Tasks, whether big or small, have to start by taking the first baby step. These can almost get humorously absurd,*

e.g., pick up the phone and dial 348 ----. While laughable, the Hoover Dam was built by taking the first absurdly simple baby step. The example above could be amended as follows:

Restructure debt [Risk Strategy from the Risk Assessment Worksheet]

S look up the lenders number and call her/him [first baby action step]

S set-up appointment with the lender to discuss restructuring [action step]

S ask to consolidate debt under a fixed rate loan [action step]

S sign the new fixed rate loan [action step]

The other advantage of the “baby step” effort is that it gives you, the facilitator something easy and tangible to follow up with at a later date (“John, did you pick up the phone an dial 348 ---- yet?”)

- 3. Complete the rest of the columns on the Risk Management Action Plan worksheet.*

Follow up Plan

[Participant Packet E]

Follow up Plan ***[Participant Packet E]***

You do not have to be around the management challenge of planning very long before realizing that the most abused part of the planning process is follow up! How many implementation plans initially put to pen and paper were never completed due to lack of follow up. Follow up, itself, will not implement the plan either, but it does bring back to the forefront of the manager's mind what she/he said they were going to do and just might prompt action. Certainly, any level of follow up can only improve the probability that something will indeed get accomplished.

In the case of this risk management curriculum, the ultimate goal at the end of the day, is that producers will have stronger businesses because they became aware of, evaluated, developed a management plan, and implemented the plan. They could do great stuff in the first three parts and still have a farm business subject to the same risks as before the workshop, if they don't do the last part and implement the strategy steps.

The kind, type, and depth of follow up is really up to the facilitator. However, for the reasons cited above, facilitators are strongly encouraged to act on some kind of follow up. Also, the follow up can include county Extension agents, lenders, technical college farm management instructors, etc.

The time for follow up is also a choice for the facilitator and participant. It is suggested to not let too much time pass, say within a 3 month period of time.

*The worksheet titled "Follow Up" (located in **Participant Packet E**) can be used if the facilitator finds it useful. The intent is that the participant will complete the worksheet and leave it with the facilitator at the end of the workshop. You may want to take a copy of it for the participant or have them record it in some way for themselves. You could also take a copy of it in the week that follows and send it by mail or email to the participant as an early reminder of the follow up.*

FOLLOW UP

Name: _____

Phone: _____

Address: _____

Email: _____

**In the very minimum,
the five specific action steps I'm going to take prior to
_____ to further secure my farm business from the
potential impact of risk are:**

1.

2.

3.

4.

5.

Warm-Up Exercise

The risk that dairy producers face day in and day out can take many forms from low prices to the hired milker not showing up for the morning milking. To get today's discussion started, please name three risks, other than price, that could negatively impact your operation this next year. That is, what events could happen that will result in a hurt to your operation.

1.

2.

3.

Probability Exercises 1-3

Exercise 1:

Based on the years 1988 to the current time, record below what you believe is the correct answer.

<i>Highest Class III/BFP price:</i> -----	<div style="border: 1px solid black; padding: 10px; text-align: center;"><p><i>Top Third of Market</i></p><hr/><p><i>Middle Third of Market</i></p><hr/><p><i>Low Third of Market</i></p></div>
<i>Top 1/3 of market begins at what price:</i> -----	
<i>Average price:</i> -----	
<i>Low 1/3 of market begins at what price:</i> -----	
<i>Lowest Class III/BFP price:</i> -----	

Exercise 2

Based on the same time period, record below what percent of the time each price you estimated in exercise 1 occurred, e.g., what percent of the time did the top 1/3 price occur. As you consider your answers you may want to think of a 25 cent range of prices with your answers to exercise 1 as the midpoint of that range. For example if your top 1/3 price was \$11.00 then answer below what percent of the time you think the 25 cent price range from \$10.88 to \$11.13 occurred.

Based on your answers in exercise 1, what percent of the time did the 25 cent range around your:

- S highest price estimate occur _____ % of the time
- S top 1/3 price estimate occur _____ % of the time
- S average price estimate occur _____ % of the time
- S low 1/3 price estimate occur _____ % of the time

S lowest price estimate occur _____ % of the time

Exercise 3

Bring your answers to exercises 1 and 2 together in the graph below. Record the lowest, low third, etc. prices you estimated from exercise 1 on the appropriate lines at the bottom of the graph. Next, follow the graph straight up from the lowest price estimate, and record the percent of time the lowest price occurred (exercise 2) by putting a dot at the appropriate percentage level. Do the same for the other price estimates and connect the dots.

