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Five Key Principles of a Good Risk Management Culture

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Managing risk in an agricultural operation is a daunting and never-ending task. While tools are available, such as marketing contracts and crop insurance, the information available is constantly changing, along with the uncertainty surrounding it. Agricultural operators are never truly done managing risk. Therefore, it is imperative that agricultural operations strive to create a good risk management culture where everyone manages risk on a day-to-day basis in a positive and timely manner.

There are five key principles that describe a good risk management culture within an organization: (1) the ability to anticipate decisions; (2) adequate resources and capacity to respond to changing conditions; (3) free flow of information into and throughout the organization; (4) a willingness to learn and adapt; and (5) risk management is embedded in all decision-making processes. What follows is a brief description of what is meant by each of these five key principles and how to make them part of your operation.

1. Ability to anticipate decisions

Proactive decision-making is based on a keen understanding of the objectives and goals you are trying to achieve with your decisions. Taking the time think about and write down important objectives related to a decision you are making pays dividends not only with improving that decision, but also with creating an awareness that allows you to better recognize future decisions that will also help you accomplish those objectives. For example, recognizing that employee satisfaction is important in retaining good employees can allow you to better anticipate opportunities to provide a key employee an inexpensive but much appreciated reward, such as time off to attend a child's athletic event or positive recognition in front of his or her peers. This reduces the uncertainty of employee job satisfaction and manages the risk of employee turnover.

2. Adequate resources and capacity to respond to changing conditions

Capacity building to handle risk and uncertainty is a tried-and-true method of reducing the impact of risk. It does come with a cost attached to it, but the most resilient operations have a plan B or even a plan C they can turn to when changing conditions make plan A no longer a feasible option.

3. Free flow of information into and throughout the organization

The free flow of information into and throughout the organization drives so much in terms of success when it comes to managing risk. As much as anything, risk management is about having useful information and having that information is about communication. Within an organization, developing a

culture where the workforce openly shares information, good or bad, creates an environment where people do not repeat mistakes, and everyone is pushing others in a positive direction. On the other hand, effective communication with people outside the organization keeps the best information flowing into the operation to inform decisions.

4. Willingness to learn and adapt

A willingness to learn and adapt is necessary to take advantage of valuable information in the midst of changing conditions. Communication is a key to developing the willingness to learn and adapt. The more people communicate with each other about the possibility of a change, the more comfortable they become with deciding about whether to make the change. Isolated decision-makers tend to struggle to adapt because they lack the support necessary to confidently move the operation in a different direction.

5. Risk management is embedded in all decision-making processes

Decision-makers often add risk management to the end of a decision when they evaluate a choice against the effect of uncertainties. Risk management is better accomplished when the decision-maker embeds consideration of those uncertainties in the decision-making process. The sooner you recognize valuable information you do not know for certain, the better the chances are that you will gather the best information together to help you make the best choice.

Imagine if you had access to all the information in the world, including what was going to happen tomorrow or a week from now. This information would obviously make risk management a moot point because there would be no risk to manage. Of course, this fantasy world does not exist. Risk management is not so much about predicting the future as it is about having relevant and reliable information upon which to base your decisions. Where does this information come from? It comes from building a solid risk management culture where everyone values excellent communication, and people understand what the organization is trying to accomplish along with the uncertainties that could affect it doing so.

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