

Managing Risk

Managing People Risks

Joanna Green

Department of Rural Sociology
Cornell University

What is “human resources risk?”

If you or your spouse were to develop a life-threatening illness tomorrow, would your farm business be at risk of collapsing? What would happen if your most valuable employee were to walk off the job? What if you can't come to an agreement with your son who is interested in taking over the farm?

These situations illustrate some of the people risks, or “human resource risks,” inherent in farming. People are a great source of risk to the stability and success of any business. We get sick, we have accidents, we leave for other opportunities – any of these situations can spell doom for the business that is not prepared to deal with them. On the other hand, people are also the most important resource the farm has for managing risk. A well-trained and dedicated workforce is able to understand, anticipate and respond effectively to risks in all aspects of the operation.

One of the most important strategies for managing risk, therefore, is to do a good job in managing people. In a farm business this may involve family and non-family members; full-time and part-time employees; seasonal and year-round helpers; “management” and “labor.” Even if your farm is a family business with no outside employees, good people management skills are needed if the family is to work together as an effective team.

Managing people

We all know that one of the biggest human resource risks that farms face is the difficulty of finding and keeping good employees. Trying to run a farm with insufficient labor or poorly trained personnel increases risks in many areas: safety may be compromised; field operations may be less timely; or customer service may suffer. And whenever you lose an employee, the cost is much higher than you might think. In the supermarket industry, for example, the costs of employee turnover exceed the entire industry's annual profit by more than 40%!

Unfortunately, many farm businesses have trouble attracting and keeping good employees. There are many reasons for this, some of which are out of the

farmer's control. What is under your control is the way you manage employees to bring out their best and to make it worth their while to stay.

In today's competitive business world, the old "command-and-control" style of managing people is being replaced by a "participatory management" approach that involves everyone in setting goals, making decisions and being accountable. In this approach each player is part of a team, working together towards the success of the business. Involving everyone in the business planning process helps to create a sense of group ownership of business goals and priorities. Workers who understand why and how decisions are made will see opportunities for the business and for themselves, including opportunities to seek out and implement risk-reducing strategies.

Unfortunately, many farmers still operate in the command-and-control mode. They may have trouble delegating responsibilities, or sharing in decision-making. They may spend too much time doing jobs that someone else could be hired to do, letting critical marketing and management decisions slide. Farmers with weak people management skills put the business at unnecessary risk. They need to learn the skills necessary to make the shift to more effective, participatory management strategies.

Managing people more effectively includes:

- Building your team by involving all the players in planning and decision-making
- Maintaining open communications
- Continuously communicating the farm vision, mission and core values, and clearly articulating business policies
- Establishing clear expectations for employee performance, and enabling everyone to know when individuals and the business are succeeding
- Providing ongoing training and education
- Evaluating employee performance and providing helpful feedback
- Compensating employees adequately and fairly

The process of hiring new employees should include:

- Analyzing the job and writing a thorough job description
- Recruiting and selecting the right person for the job
- Orienting the new employee to the farm business and how their job fits in
- Providing step-by-step training and regular feedback as they learn their job

For on-line articles about managing people effectively, [click here](#).

Management Succession

Every farm will eventually have new managers, or it will go out of business. "Management succession" is the process of making the transition to new management. It is a period of great risk for any business. A study of U.S. businesses found that, although 90% are family controlled, 70% do not survive beyond their founders' departure. However, the risks involved in succession can be reduced by careful planning for a gradual, orderly transition to new management, and by sound estate planning.

To be successful, a transition to new management should be guided by a plan, developed with the help of professional advisors. Your "transition team" should include your lender, a lawyer, an accountant, a financial planner, both spouses, and all partners. Developing the plan may take two to three years, but it is an investment that will greatly reduce the risk of business failure.

Finally, estate planning is an important tool for reducing the risk of disruption to the farm business in the event of the owner's death. It allows you to decide how assets will be transferred to the next generation, and to minimize the family's real estate tax liability. Like transition planning, estate planning takes time and effort but is an key part of managing the people risks in farming.

For on-line articles relating to management succession and estate planning, [click here](#).
