

Risk Management

Farm and Ranch Business Management Functions

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Management functions include planning, organizing, staffing, directing and controlling. The planning function is discussed in "Managing Your Farm and Ranch Operation."

The Organizing Function

The organizing function is the process of identifying or establishing jobs, positions and chain of command. Organization should facilitate the communication needed to make good decisions at all levels of the operation. Organizing also includes inventorying physical and financial resources, identifying skills and talents among employees, and physically arraying these resources for efficient use. The manager must analyze how the firm is organized and, as part of the planning process, determine if that organizational structure should be modified or replaced. The way the business is organized is fundamental to communication, delegation of authority, risk management and decision making. The whole point of organization and organizational charts is to make the operation run smoothly and efficiently. When a business is organized correctly, everyone understands his job and has the authority and training to do it. The lines of communication move information to the decision makers or managers.

You can have the necessary resources, a mission, and a set of strategies with SMART goals, but if you don't have good information flow it is difficult to fulfill your mission. Every decision made by a manager is based on information. The business organization dictates information flow.

Here are three examples of organization and information flow (who answers to whom) within an organization. Note that in each example there is a two-way flow. The more completely the business mission and goals are understood by each staff member in the organization, the greater is the opportunity for the vision to be attained.

Figure 1.

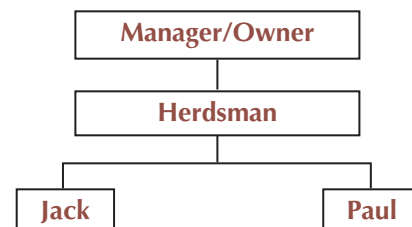


Figure 2.

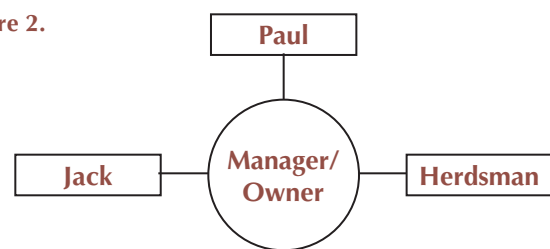
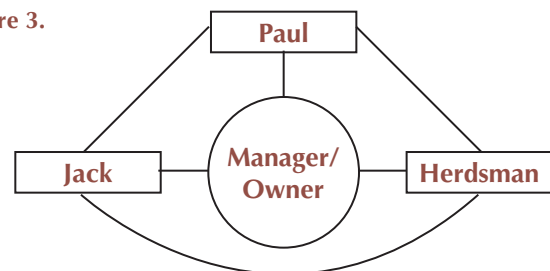


Figure 3.



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These examples of organizational charts illustrate different chains of command and different lines of communication and authority. In Figure 1, authority flows down from the manager/owner while information flows both up and down. In Figure 2, authority is concentrated in the manager/owner, with information flowing back and forth between the central authority and each of the workers, but there is no direct line of communication among workers and no direct line of authority. Each of the individuals reporting to the manager/owner may have authority over some part of the organization, but there is no direct line for making decisions. In Figure 3, power is still concentrated, but there is communication and coordination.

There is no right or wrong organizational structure if information flows and goals are met. Often there is an informal organization based more on seniority, informal power, and/or perceived knowledge. Sometimes an informal structure causes problems, but it may convey information well and it can be a mechanism for building loyalty to the organization. More formal organizational structures lead to improved communication and better decisions. The business' goals will be achieved more efficiently and with improved personal satisfaction.

Developing an organizational chart for your business allows you to determine the jobs that need to be done and how authority is to be shared. The organizational chart also allows you to determine how decisions will be made if part of the management team is not present.

Each level, ring or layer of an organizational chart represents a different level of authority. In Figure 1 the level above has more authority than the level below. In Figures 2 and 3 the inner ring has more authority than the outer ring. At each lower level the authority and the jobs and tasks associated with those jobs become more specific. For example, if Paul and Jack are milkers, they have very specific jobs with very specific authority to do certain tasks and to make certain management decisions related to their jobs. That authority exists only if you allow the herdsman to delegate authority to the milkers.

This statement may seem trivial, but suppose you made it clear that all decisions had to be reviewed by you before anything could be done. Suppose a problem with a milking claw developed. If you have to be consulted before the problem is corrected, then milking could be halted for a couple of hours. If the milkers have the authority to deal with the problem, then downtime is minimized.

Developing an Organizational Chart for Your Operation

Action:

Draw an organizational chart of your operation, drawing in each position. (A dairy example is used here because of the number of daily functions. This illustration can apply to any type of operation because the principles remain the same.) At the top of the page list each position and the person to whom the position reports. Also list the person or persons who are supervised by the position. Finally, list the responsibilities of each position, including the manager. For example, if your chart is similar to Figure 1, your description for the Herdsman's position might look like the following:

Example Position Description

Position: Herdsman

Reports to: Me

Supervises: the milkers, Jack and Paul

Responsibilities:

- herd health
- milking and milk quality
- milking equipment
- herd nutrition
- dry cow maintenance
- replacement herd care

Does your organizational chart represent what is really occurring? Is example 1, 2 or 3 best for your management (organizational) style? Will you change or modify your present organizational structure?

As you analyze the organization of your business, you can review the need to improve the

training or skills of the employee filling each position and the amount of work he or she is responsible for. Labor issues can create some of the most frustrating problems for managers. In addition to the fact that each worker has his or her own motives, ambitions, experiences and skills, there is competition from other potential employers. There are federal and state labor regulations that must be met. The management of workers listed in your organizational chart is called staffing and directing.

Staffing and Directing

Staffing and directing is personnel management. Staffing is the process of identifying and placing people in positions, while directing involves identifying employee strengths and weaknesses and matching positions with the most suitable personnel. Directing is also training, evaluating, and sometimes firing employees. Directing involves communicating to employees what is expected of them (the job description). Directing is telling workers how they are doing and rewarding them (evaluation and feedback). Directing is also providing acceptable working conditions and opportunities for advancement through training and education.

Effective staffing begins by filling each position with the best person available. A manager must thoroughly understand the responsibilities of each position, why it is important to the organization, and what is required of the person filling the position. The job descriptions developed as the organizational chart is created are critical.

Maintaining an attractive workplace can improve employee satisfaction, help retain employees, and reduce the level of employee turnover. Some managers and supervisors fail to treat employees with the respect they deserve. It may even be an advantage to learn a foreign language if your employees speak that language, and it may take nothing more than an annual picnic or small party to show appreciation for employees.

Adequate training and continuing education are important in keeping workers productive and loyal. Some managers videotape employ-

ees and use the videos to help workers sharpen their skills. You should not worry that training will make your employees more attractive to other employers. Skilled workers take pride in what they do and will move only if they think they are better off in doing so. But even if the best employee moves to another business, if that employee leaves with a good feeling about your business it will help you to attract a good replacement.

Coaching, directing, encouraging, helping workers to do their best, and reprimanding if necessary are important because this helps employees make the firm's mission and goals their own. Employees who feel good about where they work are likely to believe that the better the business does, the better they do.

The Controlling Function

The controlling function is the process of measuring a firm's progress. It involves collecting information that can help you track the business' health and the progress towards attaining goals. Some farm and ranch financial management measures that can help in decision making are:

- current ratio
- debt to assets ratio
- acid test ratio
- leverage ratio
- debt to equity ratio
- rate of return on total farm capital
- rate of return on equity capital
- turnover ratio
- cost to receipts ratio
- gross ratio
- returns per unit of production
- cost per unit of production
- labor cost per unit of production
- net income per enterprise

There are several production management measures you can use, depending on the commodity you produce. Some production management measures for dairies and cow-calf operations include:

Dairy Example	Cow-Calf Example
<ul style="list-style-type: none"> • milk per cow • milk per string • milk production per worker • feed fed per pound of milk sold • average somatic cell count for milk marketed • voluntary cull rate • involuntary cull rate • average percent dry • days open • percent death rate • total maximum daily load for manure • sick days per worker • pay rate per worker 	<ul style="list-style-type: none"> • pregnancy percent • calving percent • calf death loss percent • weaning percent • average weaning weight • pounds weaned per exposed female • raised and purchased feed per breeding cow

Action:

List the ten most important financial management measures for your business. Ask your banker, accountant or business advisor for ideas. What measures do other successful businesses use? Will your present accounting or records system give you this information? What benchmarks can you compare your measures with to help set your goals? What changes will you need to make to improve or initiate a controlling function?

Action:

List production management measures for your farm. Who can help you determine which are most important? Are there standard measures (benchmarks) to compare to? The controlling function is very much the measurement of management—measuring the attainment of your goals. In-depth discussion of many of these measures is contained in other leaflets in this risk management series. Once the various measures are identified, you can compare to benchmarks established by successful businesses like yours and determine your success or failure in reaching your goals. If you have been successful, set the next goal. If unsuccessful, identify what must be changed to reach your goal.

Management is continual work, just like growing the crop or feeding the livestock. It may be time spent behind the desk rather than time spent “in the field,” but it is just as critical to reaching your goals and fulfilling your mission.

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