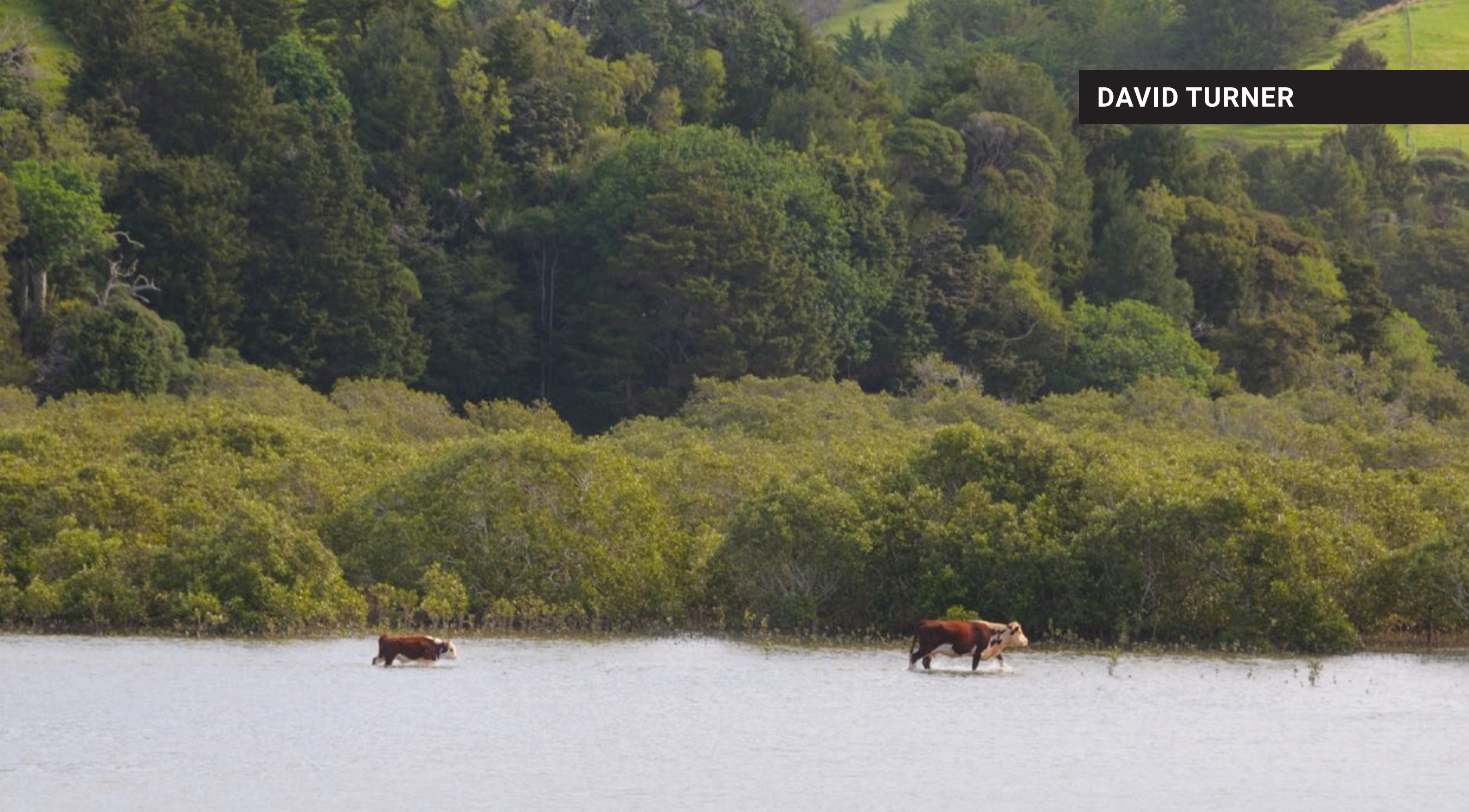

DAVID TURNER

RISK MANAGEMENT TO ENHANCE DECISION-MAKING

This article looks at why risk management is becoming increasingly important in assisting all industries across New Zealand, and especially the rural sector.

Becoming more resilient

For frontline risk managers who know their industry well (farmers, farm consultants/advisors, support service/supply line or banking staff), what needs to be considered with risk management, and how can it be given appropriate attention?

When I grew up in Taranaki over 30 years ago, I often visited a relative's farm, and even on those short visits we could clearly see the amount of work required to run the farm business. This was a time when standards, compliance, health and safety, and the hiring of staff were not as high on the list of risks and issues compared to the demands of today's farms, as well as those placed on the rural sector overall.

Risk management has been around for a long time and across many industries, but it is often not officially learned or written down into processes and procedures. Rather, it is just known and practised daily like almost any other activity (e.g. planning, basic financial management, ordering, delivery, and health and safety).

Over the past 10 years risk management has increasingly turned into a key service because its practice can be quite complicated, procedural and heavy on reporting (raising the complexity). For many organisations that offer risk advice and risk management assessments and associated services, risk has become a very profitable and reliable source of revenue.

As the demands placed on rural businesses rise there is an increased need to practice good risk management. But there is an underlying perception that it is all too hard, expensive and complicated and that farm businesses need consultants and specialists to guide them. The reality is that farmers and their existing trusted advisors may be able do a certain amount of risk work themselves (and probably are already).

Common risks in agricultural operations

In my experience, the key factors placing risk at the forefront of the minds of farmers and farm consultants/advisors include, but are not limited to:

- Climate change and the effects of uncertainty
- Regulated environments
- Future thinking and planning
- The Ministry for Primary Industries (MPI) and its predictions
- Freshwater farm plans
- Animal welfare
- Wintering systems – stock and feed
- Markets and potential markets
- Carbon issues and profitable farming
- Financial viability
- Health and safety.

Strengthening risk management

Given the factors to the left, to enable good risk management moving forward, a stronger connection between rural professionals and farmers regarding farm business risk is suggested. Working together could benefit the practice of good risk management and reduce some costs, as well as potential stress.

For example, closer working ties could look more like the relationship set out in **Figure 1**:

Risk management has been around for a long time and across many industries, but it is often not officially learned or written down into processes and procedures.

Rural professional

Key words: practical, real

Understand:

- The industry's key risks, issues and assumptions
- Key challenges and threats
- Understand the rural environment – the client
- Know how to articulate risk
- Find the best approaches to help manage risk, including collaboration
- Do not over-complicate
- Consider tools: ISO31000 to help guide
- Connect
- Think: opportunities
- Think: BCP (Business Continuity Plan)

Farmers

Key words: Know your business, listen, flexibility

- Understand that you have issues and assumptions that could impact the business
- Know the key challenges and threats
- Understand that your rural professional may not know absolutely everything

Communicate:

- Listen
- Open-minded
- Flexible
- Question, challenge

Figure 1: A better relationship between rural professionals and farmers regarding risk management

Business continuity planning document

After developing a good understanding of what risks exist and how they might be managed, the next step should be to develop and review a business continuity plan (BCP). This will be relevant to the risks that have been identified. It can also be a way to help with continuity should there be disruptions or crises that impact the farm business and should involve managers and governors alike.

The BCP is a document that guides a business through disruptions or crises by providing alternatives and contingencies for processes, procedures, stakeholders and partners, employees, key financial requirements and areas that are required for continued operations.

A typical BCP will provide checklists to work through that include IT, data back-ups, equipment, contact information for staff and suppliers, and guidance for either a longer-term or short disruption. In a farm business this would likely extend to the needs of livestock, feed supply and produce collection. The BCP is aimed at ensuring the business can still operate as effectively as possible during a disruption to lessen the impact on production and services.

However, while this might all work in theory, if not given enough attention, detail and understanding about how the BCP will work in practice if required, it can work against a business and impart a false sense of security about its capacity to respond. The key is to make it as realistic as possible by accurately identifying the risks and potential risks and issues and planning appropriately for these.

It is important to ensure that simple things like contact details are up-to-date and that the business puts the BCP to use as an exercise at least once every 12 to 18 months. These simulations can also be an effective way to develop a BCP. Running simulations will also provide the business and its stakeholders with trust and confidence that it works and ensure that the plan doesn't sit there as a good idea only.

Placing key risks and emerging risks into business planning will not only help decision-makers in understanding their business better to be able to prepare for the future, but will also provide confidence to other key stakeholders, such as lenders, suppliers and investors. This is especially so when a SWOT (strengths, weaknesses, opportunities and threats) analysis is done, coupled with up-to-date financial information and performance indicators, which are key to remaining sustainable and resilient.

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Good risk management means better resilience, so farm businesses are better prepared for what might come.

What to be careful of

Good risk management means better resilience, so farm businesses are better prepared for what might come, or what may be here right now (i.e. a current issue). However, farmers will at times benefit from seeking advice.

The key to good advice spans three areas:

- Knowing exactly why the advice is needed and what needs to be achieved from receiving it, so the farmer can articulate and demonstrate this well to their chosen rural professional/consultant
- The quality of information provided to the advisor or consultant. Rural professionals are only able to help correctly by knowing as much as possible about what their clients need to achieve and knowing the farm business well enough to provide accurate and calculated observations and decisions
- Most importantly, who the farmer receives the advice from. Consultancy, advice, guidance, or however it is described, will only be as good as the first two points coupled with the experience and capability of the person providing it. Farmers need to look hard at who they choose to help with risk management and never hesitate to ask direct and hard questions of their advisors. It might also require them to seek advice outside their existing group of advisors. This will help ensure that the rural professionals being engaged not only understand the farmer, the farm business and what needs to be achieved, but they know what they are doing and have the experience and knowledge to deliver well to reach the agreed objectives and outcomes.

Articulating risk to benefit the farm business

Have you ever asked for directions and could not understand the answer, and then became more confused than you were before you asked?

The goal of risk management should be that key decision-makers have the ability to quickly identify the top risks and issues they face within the farm business, and then communicate these externally with precision and conviction. When someone can do this off the top of their head, explain and articulate this well and demonstrate how these risks and issues are being managed, it reflects a large amount of understanding of the business. It will also help to ensure that keeping on top of the risks is more of a habit rather than a separate function that only receives attention now and then.

Understanding risk management can be a powerful tool and provide many benefits.

Having this knowledge and understanding can then be used for other important issues. For example, when a farmer is applying for any type of request, loan, grant or funding, having the ability to articulate the risks to the operation well lets other people know that decision-makers are completely across their business and its risk status.

Summary

To be more resilient is about understanding one's own business and environment very well, which means key decision-makers can adjust, change, redirect and take better ownership of what they do and how they do this. This will mean they are much better prepared for disruptions through crises, changes in markets, the weather and the economy, and in key areas of a business, such as safety, financials and staffing.

Understanding risk management can be a powerful tool and provide many benefits, particularly for farm businesses. When managers and governors truly understand the risks to their business, then they not only know their capacity, capability and limitations, but also their potential.

David Turner is CEO of Risk New Zealand based in Wellington. Email: david@risknz.org.nz

Checklist for dealing with risks

You can workshop the risks – chat, talk, nothing is out of bounds. The following can be practised, enabling a clearer focus on risks and issues:

1. So, what are our risks? – collect the risks
2. What might happen if we don't manage each risk? – discuss the risks
3. Determine:
   - What is a critical risk for you?
   - High risk?
   - Medium risk?
   - Future and emerging risks?
4. Do we have:
   - Issues?
   - Assumptions?

Having gone through this process, farmers and their trusted rural professionals should have a much better insight into what requires attention, by who, and by when.