
The Real Reasons to Manage Risk

By [Lance Woodbury](#)

Agricultural businesses face significant risks every day. While we tend to focus on managing risk in the areas of grain and livestock production and marketing – the financial lifeblood of an operation – there is also safety risk, legal risk, employee succession risk, even family relationship risk. Risk is all around us, and this [recent Purdue newsletter](#) highlights how ag producers perceive the risks they face.

Our colleague [Del Craig](#) is an advocate for identifying and understanding your risks. Any effort to make a decision, set a price or manage a cost should involve a fundamental understanding of your exposure. What have you protected? What are the possibilities – positive and negative – with what has been left exposed?

Going one step further, I would encourage you to consider **why managing a given risk is important**. In other words, answer the question: **“What are the consequences if I fail to manage this risk?”**

I once heard the managers of a chemical plant describe how they motivate their team to stay safe. They do all the right training, provide certifications, use safety equipment and checklists. But the real motivator to stay safe? In the breakroom they have a wall with pictures of every team member’s family. Each staff person walks by this “family wall” on their way out to the plant, and it reminds them that failure to manage a risk impacts far more people than just the employees at the plant. It impacts children, parents, brothers, sisters and community members. When you think about the impact on all those people, “risk management” takes on a whole new dimension.

If you fail to manage financial risks, more than simply losing money, you jeopardize your land and your legacy. If you fail to manage employee succession risk, you won’t just lose an employee, you’ll make everyone’s life more stressful. If you fail to manage safety risks, you cause pain to many more people than just yourself. Those consequences are the real reasons to manage risk in your business.

The Risk of Doing Nothing

By [Davon Cook](#)

While Lance discussed business risks in the previous article, let’s consider risks to the family unit inherent in a business you run together. Prevalent among several is the risk of doing nothing to address discord or tough issues. Whatever the tough issue—difficult work interactions, disagreement over compensation, resentment over how assets are/were inherited or gifted, different risk tolerances that cause conflict, or incompatible philosophies of money and lifestyle—there’s a tendency to sweep it under the rug to be dealt with another day. Having those tough conversations can be stressful, and many times you fear making it worse by bringing up the elephant in the room.

Thus, doing nothing to address the discord becomes a de-facto strategy, without an intentional decision weighing the pros and cons being made. You’ve heard the quote by William James, “No decision is, in itself, a decision.” I extend that to say, “Doing nothing is, in fact, making a **choice** to accept the status quo.” Thus, by refusing to discuss and address the hot topics, you are making a **choice** to be continually stressed by your debt level when your partner is unconcerned...making a **choice** to be annoyed at family holidays every year because you haven’t settled resentment with a sibling over inheritance...making a



choice to endure conflict every year when it's time to make distributions, etc. When put in that context, is it wise to make a **choice** to continue what's not working well? I cannot guarantee that discussing the elephant in the room will make it better, but it is unlikely to make it worse.

Often overlooked is the multi-generational impact of sweeping an issue under the rug. I sometimes hear reflections like, "This has been going on for thirty years. I should have said something sooner. *And it's only gotten worse.*" The frustration has built to a breaking point, and the **choice** to do nothing is not only regretted but has become the problem of the next generation. Don't you want to set your heirs up for success rather than saddle them with unresolved conflict?

Every situation is different, and it takes wisdom to discern if, when and how to address conflict. Yet we often witness the risk of doing nothing transforming from a **risk** to a **real cost**, in relationships beyond repair and biases from the past limiting the effectiveness of today's leaders. Which choice will you make?

Reflections on a Philosophy of Risk

By [Dr. Bill Long](#)

Imagine the following: You are a Division I football coach of a team ranked #25 in the country. You have a game with a top 10 opponent. You have a chance to blow the game wide open, winning by 20 or more points, but you only have a 70% chance of doing this. If your risk strategy doesn't pan out, you lose the game (30% chance). But if you played more conservatively, you would have a 99% chance of winning, though the victory would be of 3 or fewer points. The rest of the schedule has you going against teams weaker than you. Which strategy do you pursue?

The answer depends on your philosophy of risk. Would you try to "go for broke" against a formidable foe, knowing that if you win you will turn many heads and vault high in the rankings, or would you play for the almost certain, though not overly impressive, victory?

A scene similar to this unfolded last year in the latest iteration of the "human vs computer" challenge. The computer, Google's Alpha GO, faced off against the world reigning GO (Chinese chess) champion, South Korean Lee Sedol. Twenty years ago, in 1997, you may recall that the computer (IBM's Deep Blue) defeated world chess champion Garry Kasparov, but chess is simple compared to GO. In GO there are 361 board spaces and an unlimited number of men on either side trying to surround an opponent or build a ring around a section of the 19x19 square board. A GO game typically has hundreds of moves, and trying to program a computer to consider all possibilities is more than daunting. Most experts felt that a possible victory of computer over human in GO was still a decade away.

Yet, the computer defeated Sedol 4-1. Commentators couldn't figure out in real time why the computer made the moves it did but, in hindsight, a pattern emerged, a pattern confirmed by the engineers that wrote Alpha GO's program. The key insight was the computer's philosophy of risk. In an interview after the fact, the programmers revealed that even though the temptation to "bury" the opponent with the 70/30 risk calculus was appealing, they programmed the computer to make the choices to give it the 99% chance of winning—i.e., to just barely scrape out victories. The wins might not have been overly impressive, but they were victories. And that may have been why the computer beat the human in 2016, rather than in 2026.

You must understand your *philosophy* regarding risk before deciding how to address the risks Lance and Davon discussed above. That philosophy, and the pressing nature of the facts, help you decide which strategy to pursue.

