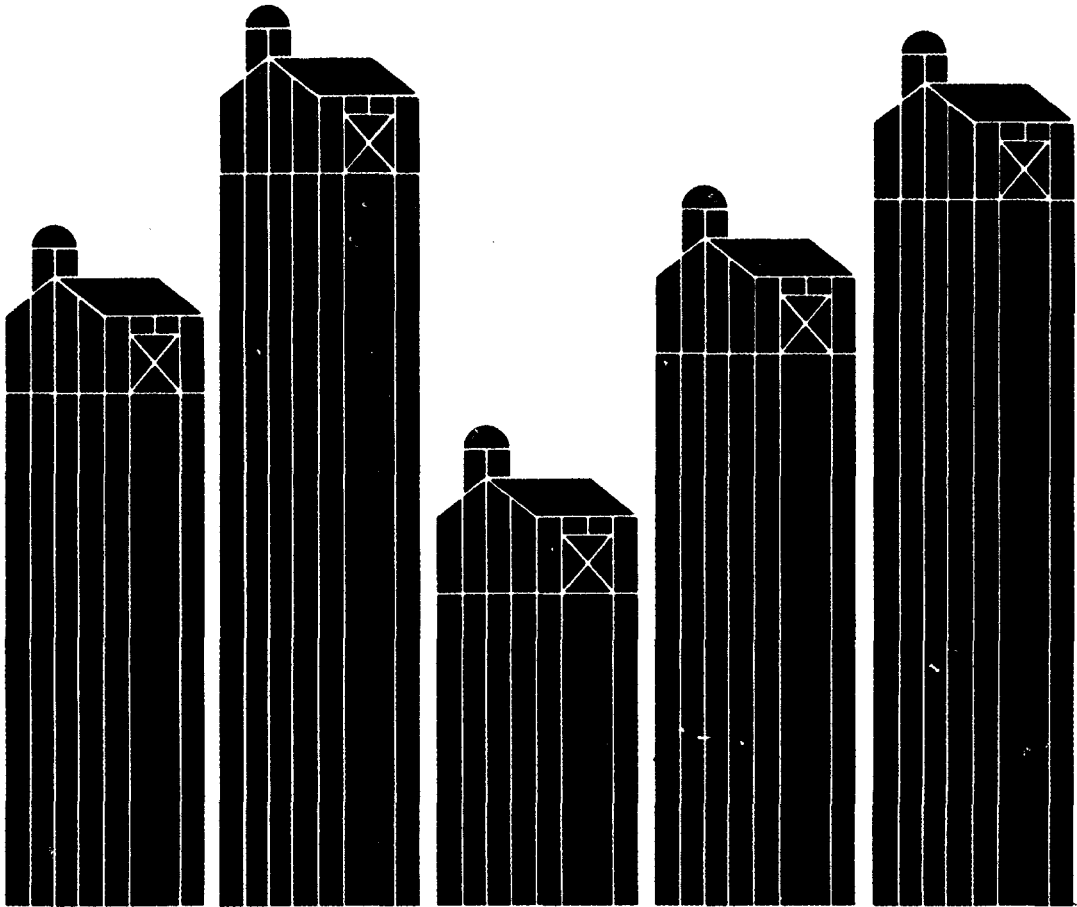


MANAGING THE FARM BUSINESS



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managing the farm business

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preface

This book is a basic text in farm management for undergraduates. It may be selectively used for one course or for a two-course sequence. The book may be used also as a reference or supplemental text for graduate courses. Commercial farm managers and other agricultural advisers who counsel and work with farmers may find the book useful. No prerequisites are assumed, although some background in microeconomics and an understanding of basic algebra facilitate comprehension of the material.

Our approach is somewhat unique in that it follows throughout the text the management of one farm. Our intent is to integrate the various managerial concepts by illustrating one problem farm situation. Although the masculine gender is often used in discussing the farm situation, this style is only a convenience to simplify writing and reading. It is not our intent to exclude recognition that women can and do have a primary role in the management and activities associated with a farm business.

As outlined in Chapter One, there are many approaches to farm management. This book attempts to provide a flexible, balanced approach. The problem-solving nature of farm management makes it appropriate to use concepts, principles, and techniques from economics, operations research, accounting, finance, system science, psychology, sociology, and other academic disciplines in dealing with major farm problems. Information needs relating to managerial functions are stressed. Particular attention is given to problems unique to various stages of development of farm firms (the beginning farm, the growing farm, the stabilized on-going farm, and farms undergoing liquidation or transfer). Finally, a systems

approach to management is used. That is, the book treats a farm business firm as a totally integrated system as opposed to providing a piecemeal approach.

The book is organized into five parts. Part I contains three chapters and serves as an introduction to the remainder of the text. Chapter One deals with the role of management. Chapter Two outlines the role of information in decision making. The distinction between data and information, types of information, and the need for a management information system are discussed. Chapter Three contains the basic economic concepts and principles that are the foundation for much of the problem-solving analyses in the remainder of the text.

The remaining four parts of the text contain analyses needed to obtain various types of information in carrying out farm management functions. Part II addresses descriptive information needs—the “what is?” Chapter Four describes farm business organizational alternatives available for farmers. In Chapter Five, basic farm accounting systems are outlined. Chapter Six deals with alternative farm records, such as those pertaining to soils, livestock, and machinery.

Part III addresses diagnostic analyses of the farm—“what is wrong” with the farm business? Chapter Seven covers farm business analysis. The identification and exploitation of strong points, and the recognition and correction of weak points are stressed. Because many things affecting farm business firms are part of the farm’s environment, the farmer has little control over them. However, the farmer must know how to react to an uncertain and changing environment. Regional comparative advantage, marketing and input purchasing strategies, and dealing with governmental programs are stressed in Chapter Eight.

Part IV contains the predictive or planning aspects of farm management—“what would happen if” alternative courses of action were chosen? In dealing with farm problems, various alternatives (including doing nothing) need to be evaluated in terms of their likely outcomes. Basic concepts and techniques for forward farm planning are introduced in Chapter Nine and are then utilized and applied for whole farm planning in Chapter Ten. Because of their uniqueness and specificity, farm investment analysis, labor and machinery management, and income tax management are handled separately in Chapters Eleven through Thirteen. The complexities of decision making under risks and uncertainty are introduced in Chapter Fourteen. Finally, a chapter on farm growth, liquidation, and transfer concludes this section. The importance of this chapter to many farms and farmers cannot be overemphasized.

The concluding part of the text on prescriptive analyses is unique to a farm management book in that it integrates and emphasizes the crucial nature and linkages of farm decision making, implementation, and feedback. Farm planning and decision making are useless unless a manager knows how to implement decisions and to learn from the experience of outcomes relating to past decisions.

Because of the diversity of topics in farm management courses, the book is designed to afford the user considerable flexibility. Used in a two-course sequence in farm management, the first course could include Parts I to III, and

the second course could include Parts IV and V (some instructors may choose to integrate Part V with Part I). However, instructors can emphasize and omit chapters as they feel appropriate for their individual approach to farm management. Typically, many instructors may wish to give primary emphasis to such topics as managerial and economic principles, farm accounting, farm business analysis, farm planning, and investment analysis, and secondary emphasis to other topics. Lastly, it is difficult in any farm management text to provide examples applicable to all types of farming situations (cash grain, livestock, citrus, tobacco, cotton, etc.). Instructors are encouraged to draw upon the principles, concepts, and examples in the text to supplement specific data and examples directly applicable to their own geographic areas.

The authors recognize the many important contributions of our professional colleagues to the development of the textbook. General assistance and direction can be traced back through our own professional schooling at various universities and with our peers at Michigan State University and elsewhere. Of especial help with review of this textbook were Drs. Robert Milligan and Steven Sonka of Cornell University and the University of Illinois, respectively. Their careful reading and constructive criticism helped to improve the quality of this book. Ed and Dianne Rister, formerly of Michigan State University and now with Texas A & M University, provided a conscientious review and indexing service, respectively. Kim Payne diligently typed the manuscript. Last, but not least, the authors gratefully thank their respective families for lending moral support through the lengthy process. And in accordance with a well-founded tradition, the authors accept responsibility for the final version of the textbook.

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