Book Review

Applied Risk Management in Agriculture.

Dana L. Hoag, editor. 2010. CRC Press, Taylor and Francis Group, Boca Raton, FL. 403 pages. \$79.95, Hardcover. ISBN 978-1-4398-0973-0.

While this book can be used as a stand-alone guide to practical risk management, its apparent main purpose is as a manual to the Internet program Risk Navigator SRM© (www.RiskNavigatorSRM.com), an interactive tool for strategic risk management (SRM). The editor states the goal of the book is “to provide a guide for farm and ranch managers, producers and specialists, enabling them to evaluate their own risk environments and management options. This book is also useful to upper-division undergraduate students or graduate students in economics and related fields.” This audience is diverse, and the book has trouble responding to all of them. Parts of it are extremely basic whereas other parts will challenge (and probably only be of interest to) graduate students. Despite these limitations, the book does bring to one place a large and diverse amount of relevant information.

The book is organized into three sections. The first section with four chapters introduces types of risk, the subject farm that is used throughout to exemplify the strategic risk management (SRM) process, and the process itself. Details of ten steps of the SRM process are covered in the second section of eight

chapters. Since managing risk is just one component of a manager's decision-making responsibilities, a good organizing structure is to take a standard decision guide and use it. The typical chapter explains a concept, illustrates it with examples usually referring to the subject farm described in Chapter 3, and demonstrates how the Risk Navigator program handles the topic. Section three containing six chapters gives an advanced treatment to some aspects of risk covered earlier. The examples apply to Midwestern and Plains States crop farms, and for these growers understanding and using the information in the first four chapters of this final section is essential for good risk management.

Strengths of the book include its emphasis on measuring financial status as the starting point for analysis, and on the use of accrual-basis accounting and proper valuation of assets, though more emphasis on accrual adjustments needed for management and less on accrual accounting itself would have been desirable. The book has a comprehensive listing of types of risk and of strategies to manage risk. Even though written by a number of co-authors, the book generally flows smoothly from one chapter to the next and avoids the chopiness that often occurs in edited collections.

Unfortunately, the book does have some weaknesses. It seems unsure of the level of preparation of its audience. For example, it ranges from a simple example of calculating a mean—and that after a discussion of probability density functions and cumulative distribution functions—to stochastic dominance and stochastic efficiency with respect to a function. The book also seems unsure of how

much risk theory needs to be presented so that a farmer understands enough to properly manage risk. Some essentials tend to get buried in relevant but not strictly essential detail and some of what is in the body of the text could be relegated to an appendix where readers with graduate training could check out the details. There are regrettably several places where the text is either wrong or confusing, where one sentence makes a correct statement then a nearby sentence or table contradicts it.

My largest objection is to the emphasis put on determining the manager's risk preferences. Doing so is not a trivial exercise and is necessary only if an adviser is to make recommendations without the grower's involvement. Decision making under risk requires choosing among tradeoffs in risk-reward space. True, there are several ways of presenting relevant information to a manager, but when these are done, as in Risk Navigator, farmers will soon discover what choices their personal risk preferences call for.

Every farmer must manage all kinds of risks, and it can be done well or badly. If you are not satisfied with your risk management performance, then you will get something out of this book. If you spend some time working through the steps to discover where you can have the most impact on risk and if you actually implement a new strategy, then you will probably recoup the cost and effort this book requires. But, as in life, nothing is certain.

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