

## **1. INTRODUCTION TO FARM MANAGEMENT**

Farm business management has assumed greater importance not only in developed and commercial agriculture all round the world but also in developing and subsistence type of agriculture. A farm manager must not only understand different methods of agricultural production, but also he must be concerned with their costs and returns. He must know how to allocate scarce productive resources on the farm business to meet his goals and at the same time react to economic forces that arise from both within and outside the farm.

The need for managing an individual farm arises due to the following reasons:

- i) Farmers have the twin objectives, viz., maximization of farm profit and improvement of standard of living of their families.
- ii) The means available to achieve the objectives, i.e., the factors of production, are scarce in supply.
- iii) The farm profit is influenced by biological, technological, social, economic, political and institutional factors.
- iv) The resources or factors of production can be put to alternative uses.

Farm management is concerned with resource allocation. On one hand, a farmer has a set of farm resources such as land, labour, farm buildings, working capital, farm equipments, etc. that are relatively scarce. On the other hand, the farmer has a set of goals or objectives to achieve may be maximum family satisfaction through increasing net farm income and employment generation. In between these two ends, the farmer himself is with a specific degree of ability and awareness. This gap is bridged by taking a series of rational decisions in respect of farm resources having alternative uses and opportunities.

The study of farm management would be useful to impart knowledge and skill for optimizing the resource use and maximizing the profit. The following definitions would throw light on the meaning of farm management:

### **A. DEFINITIONS**

Farm means a piece of land where crop and livestock enterprises are taken up under a common management and has specific boundaries. All farm management economists can be categorized into three groups on the basis of whether they consider farm management as an art, science or business.

The first group of farm management economists comprising of Andrew Boss, H.C.Taylor and L.C. Gray viewed farm management as “an art of organization and operation of the farm

successfully as measured by the test of profitability”.

The second group comprising of G.F. Warner and J.N. Effersen considered farm management “as a science of organization and operation of the farm enterprises for the purpose of securing the maximum profit on a continuous basis”.

The third group of economists like L.A. Moorehouse and W.J. Spillman defined farm management “as a study of the business phase of farming”.

The most acceptable definition of farm management is given below:

Farm Management is a science that deals with the organization and operation of a farm as a firm from the point of view of continuous maximum profit consistent with the family welfare of the farmer. Thus, in an environment where a farmer desires to achieve objectives like profit maximization and improvement of family standard of living with a limited stock of factors of production which can be put to alternative uses, farm management is an essential tool.

## **B. FARM MANAGEMENT DECISIONS**

Farmers must be able to take appropriate decisions at appropriate time. Incorrect judgement and decisions would result in the failure of execution of farm plan and in turn economic loss. The farm management decisions can be broadly categorized into two ways.

i) The first method of classifications is according to the following criteria: a) Importance, b) Frequency, c) Imminence, d) Revocability and e) Alternatives available. Each of the above criteria is discussed briefly.

a) Importance: Farm management decisions vary as to the degree of importance measured generally through the magnitude of profit or loss involved. For example, a decision to engage in poultry is relatively more important than a decision regarding the type and location of poultry shed.

b) Frequency: Many decisions assume importance on the farm because of their high frequency and repetitive nature. The decision about what and how much to feed to the dairy animals is made more frequently than that regarding the method or time of harvesting of paddy.

c) Imminence: It refers to the penalty or cost of waiting with respect to different decisions on the farm. Experience shows that while it pays to act quite promptly in some

cases, postponement is necessary in other cases till the required complete information becomes available. For example, the decision to harvest paddy is much more imminent than a decision about buying a tractor.

d) **Revocability:** Some decisions can be altered at a much lower cost as compared to others. For example, it is relatively easier to replace paddy with groundnut, which perhaps becomes more profitable, than to convert a mango orchard into a sugarcane plantation.

e) **Alternatives available:** The number of alternatives can also be used for classifying farm management decisions. The decisions become more complicated as the number of alternatives increase. For example, threshing of paddy can be done manually or with thresher.

Classification of decisions based on the above criteria is not mutually exclusive and is changing from individual to individual and from place to place for the same individual.

ii) The second method classifies farm management decisions into: a) what to produce? b) when to produce? c) how much to produce? and d) how to produce?

The farm manager should choose the enterprises based on availability of resources on the farms and expected profitability of the enterprise. This is studied through product-product relationship. Once the farmer decides on what to produce, he must also decide on when to produce, as most of the agricultural commodities are season bound in nature. Then, he should decide how much of each enterprise to produce, since the supply of agricultural inputs is limited. This can be studied through factor-product relationship. In order to minimize the cost of production, i.e., decisions relating to how to produce, factor-factor relationship has to be studied. The farm manager should also take marketing decisions like a) what to buy? b) when to buy? c) how much to buy? d) how to buy? e) what to sell? f) when to sell? g) how much to sell? and h) how to sell?

**iii) Factors Influencing Farm Management Decisions:** Farm management decisions continuously undergo a change overtime because of the changing environment around the farm, farmer and his family. The factors which influence the decision making process are:

- a) Economic factors like prices of factors and products.
- b) Biological characteristics of plants and animals.
- c) Technological factors like technological advancements in the field of agriculture and suitability of different varieties and farm practices to varied agro - climatic conditions.
- d) Institutional factors like availability of infrastructural facilities which include storage, processing, grading, transport, marketing of inputs and outputs, etc, government policies on farm practices, input subsidies, taxes, export and import, marketing, procurement of produces and so on.
- e) Personal factors like customs, attitude, awareness, personal capabilities and so on.

One or more changes of the above categories in the environment around the farmer may cause imperfections in decision-making. The process of decision making, therefore, has to be dynamic so as to adjust in such changes.

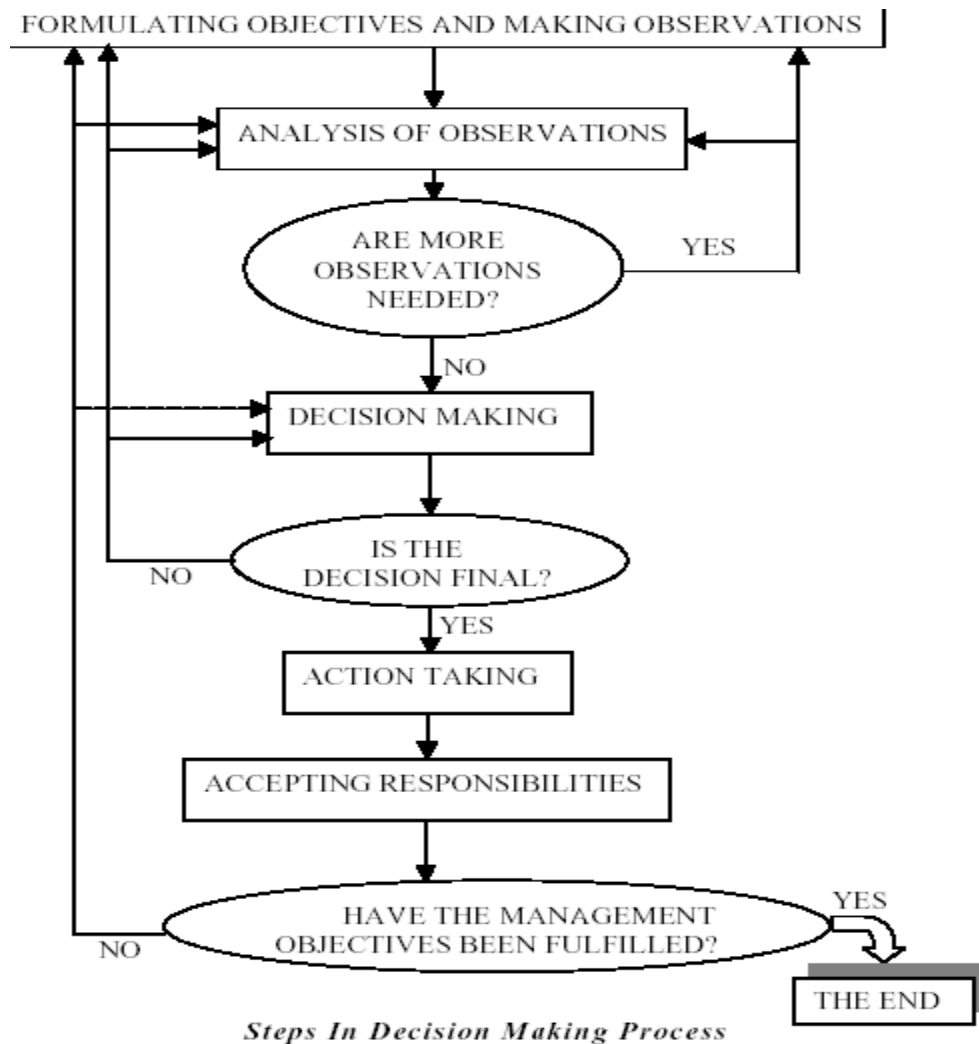
#### iv) Decision Making Process

Every farmer has to make decisions about his farm organization and operation from time to time. Decisions on the farms are often made by the following three methods:

- a) Traditional method: In this method, the decision is influenced by traditions in the family or region or community.
- b) Technical method: In this method, the decisions require the use of technical knowledge. For example, a decision is to be made about the quantity of nitrogen requirement to obtain maximum yield of paddy.
- c) Economic method: All the problems are considered in relation to the expected costs and returns. This method is undoubtedly the most useful of all the methods for taking a decision on a farm.

#### v) Steps in Decision Making

The steps in decision - making can also be shown schematically through a flow chart. The important steps involved in the decision-making process are formulating objectives and making observations, analyses of observations, decision-making, action taking or execution of the decisions and accepting the responsibilities. The evaluation and monitoring should be done at each and every stage of the decision making process.



vi) Functions of a Farm Manager: Some of the major areas, which form the subject matter of farm management, are listed below:

a) Farm Management Functions: The major farm management functions are:

- 1) Selection of enterprises.
- 2) Organization of agricultural resources and farm enterprises so as to make a complete farm unit.
- 3) Determination of the most efficient method of production for each selected enterprises.
- 4) Management of capital and financing the farm business.
- 5) Maintenance of farm records and accounts and determination of various efficiency parameters.
- 6) Efficient marketing of farm products and purchasing of input supplies.
- 7) Adjustments against time and uncertainty elements on farm production and purchasing of input supplies.

8) Evaluation of agricultural policies of the government.

b) Farm management activities are differently viewed by different authors. Farm managers are generally responsible for taking up technical, commercial, financial and accounting activities.

These activities are elaborately discussed below:

### Farm Management Functions

Activities	Functions	Details
1) Technical Activities: These include responsibilities for seeking all production know-how so that production is accomplished in time and adapting production process to changing economic and technical conditions.	Deciding what to produce? and how to produce?  Using Land  Determining Level of Mechanization  Determining the scale of production (How much to produce?)	Enterprise-choice and combinations. Input levels and combinations. Quality of output. Capacity –fertility. Tillage practices conservation. > Regulations-constraints. > Capital requirements. > Availability of services. > Labour implications.  > Economics in production on buying. > Shape of cost curves. > Degrees of specialization. ¾ Quantity of output. Capabilities of management.

Activities	Functions	Details
2. Commercial Activities: These include all buying and selling. They involve procurement of inputs in the quantities and combinations	Acquiring inputs	> What to buy? -Type, Quality. > How to buy-own? Rent/lease, hire. > Financing. > From whom? > When/How long? > How much to buy? -Quantity.

necessary for efficient production, plus orderly storage, handling and marketing of commodities produced. It also includes forecasting and contracting for services of others.

3. Financial Activities: These involve the acquisition and use of capital, presumably in an optimal manner. This requires forecasting future investment needs and arranging for their financing.

4. Accounting Activities: These include physical, human, business and tax records. This area may involve setting standards for certain enterprises or segments of the business.

Marketing products

Forecasting price

Acquiring funds

Using funds

Forecasting future needs.

Keeping production records

Recording business transactions

Tax reporting. Filing documents with Governmental and Regulatory Agencies.

- > What to sell? -Quality/type
- > When to sell? -Store/immediate sales.
- > Where to sell? -Direct to buyer or store, delivery point, integration.
- > How to sell? -Open market, contract, hedge.
- > How much to sell? -Quantity
- > Inputs.
- > Products.
- > Quantity and terms of borrowing. Sources. Lender services.
- > Equity position.
- > Liquidity position.
- > Relative profitability of alternatives.
- > Time horizon and pay-back period.
- > Cash flows.
- > Depreciation of assets.
- > Expansion / contraction.
- > Changing technology.
- > Enterprise ownership.
- > Input-output efficiency.
- > Accounting method.
- > Choice of accounts.
- > Periodic summery. Cash flow forecasting.
- > Income tax and other taxes.
- > Wages.
- > Social security.
- > Depreciation.