# CHAPTER ONE

# **1. BASICS OF FARM MANAGEMENT**

## Introduction

Dear students, welcome to this chapter. This particular chapter deals with concepts and definition, scopes of farm management and problems of farm management. It creates an opportunities for students to endowed themselves with knowledge about general concepts of farm management and enable them to understand the remaining parts of farm management course easily.

Farm management is a branch of economics that studying how a farmer attempts to accommodate scarcity to his needs. To this end, it ties economic, agronomic and to some extent social factors together in decision making on farming enterprises with a view to get maximum profit from its scarce resources.

Farm management deals with the organization & operation of a farm with the objective of **maximizing profits** from the farm business on a continuing basis. The farmer needs to adjust the farm organization from year to year to keep the changes in methods, price variability & resources available to him. Thus farm management is the science which deals with the analysis of the farming resources, alternatives, choices & opportunities within the framework of resource restrictions & social & personal constraints of farming business.

Farm management is the collective term for various management strategies and methods that are employed to keep a farm productive and profitable. The process of this type of management is often associated with large commercial farm, although many of the same methods can be utilized with equal success on a small family-owned farm. Depending on the size of the operation, the management process may require the services of a single farm manager or a group of managers who oversee various aspects of the overall project.

## **1.1. Definition and Concept of Farm Management**

**Farm-management** is a word made up of two words namely **Farm** and **Management.**

* **Farm**

Farm is defined as:

* An area of land devoted to agriculture either to raising crops or a few heads of livestock.
* The land where crop and livestock ***enterprises*** are taken up under the farmer/ farm family control
* A productive unit specialized in converting recourses or inputs in to agricultural products.
* In general farm is a socio-economic unit to earn an income and a productive resource under farmer's control.
* **Management:**
* It concerned with meeting of goals
* It making use of available resource or allocating scarce resource in efficient manner.
* It is a process which directs action in to some goals through planning, organizing, leading and controlling of resources (financial and human resources).
* It is also the art applied to increase agricultural production per unit of area or unit of cost to meet population demand in food.

**Therefore, Farm management is:**

* A decision making process whereby limited resources are allocated in to a number of production units alternatively to attain some objectives.
* The attainment of farm goals in an effective and efficient way through planning, organizing, leading and controlling of farm resources.
* A decision-making science to decide about the basic course of action of the farming business.

**Definition of farm management explained by different authors in different ways:**

* Farm management is the subdivision of economics which considers the allocation of limited resources with the individual farm. It is a science of choice and decision making (heady and Jensen, 1954).
* Farm management is concerned with the organization and development of the resources put in to a farm business, the land, the capital, the labour and that item of overriding important, the ability and skills of the individual farmer (Dexter and Barber, 1960).
* Farm management is concerned with the organization f resources with planning their use both within and between enterprises and with the control of plans both during their implementation and afterwards (Bernard and Mix, 1973).
* Farm management is concerned with the decision which affects the profitability of the farm business (Cattle, Becker and Nelson, 1987).
* Farm management can be thought of as being a decision making process. It is a continuous process. The decisions are concerned with allocating the limited resources of land, labour and capital among alternative and competing uses. This allocation process forces the manager to identify goals to guide and direct the decision making (Kay and Edwards, 1994).
* ***Generally farm management as an economics is******a problem solving and decision-making activity******for the allocation of Productive resources.***

## **1.2. The importance of Farm management**

We study farm management for the following reasons as under:

* It is the study of **farmer,** as a producer of food and other raw materials, **who occupies a strategic position in the economic life of the country**. Politically, farmers together exert a considerable influence on the type of government they like in the developing countries.
* Farm management gives **thrust and direction** to farm business improvement by providing use full information to planners, farmers and extension workers.
* For better understanding of the sequential flow of new technology that contributes to more realistic projection of production potential.
* Basic information provided by farm management studies on specific farm projects such as, land reclamation, settlement, irrigation and drainage, which serves as **an aid to formulating national policies**.
* Farm management is important for making the **best use of scarce resources**.
* Farm management also helps to view **the threats** and **problems** that lie, and **opportunities** for showing its potential.

## **1.3. Scope of Farm Management**

Farm management falls in the field of micro-economics. Farm management covers all aspects of farm business which has a bearing on the economic efficiency of production resources. Thus, it covers the types of enterprises to be combined, the kind of crops and varieties to be grown, the dosage of fertilizer to be applied, the implement to be used, the way the farm functions fall within the subject of farm management.

The nature and scope of farm management is the theory of optimal decision making in the organization and operation of a farm for profit maximization. It includes /concerned with/ the following topics:

* Selection, size & appraisal of enterprises
* Appraisal of farm resources
* Investment decision
* Enterprise relationship( with the use of different enterprises)
* Choice of input- output combination
* Cost and return on individual enterprise and on the farm as a whole
* Farm planning and budgeting
* Farm prices ( for both inputs and outputs, profit and credit/ loan)
* Risk and uncertainty
* Planning and marketing of farm produce

**In general terms, farm management is concerned with:**

* The resource allocation at the level of individual farm;
* The type of enterprises combined;
* The choice of input- output combinations;
* Formulation standard farm plan and optimum cropping patterns for different area and type of crops;
* Developing suitable model of mechanization and modernization;
* Evaluation of agricultural policies, bearing development growth of the farm.

## **1.4. Basic Farm Management decisions**

The allocation of limited resources among a number of alternative uses requires a manager to make decisions. Without decision nothing would happen. Even, allowing things to continue, as they are implies a decision. **Decision- making** runs through the whole process of management.

### **1.4.1. Classification of decisions**

Decisions made by farm managers can be classified in a number of ways. One classification system would be to consider decisions as organizational and operational, administrative and marketing decisions.

1. **Organizational decisions /strategic/long run decision:** are those in the general areas of developing plan, acquiring the necessary resources, and implementing the overall plan. Examples of such decisions are determining size of the farm, how much land to purchase, or lease, planning of additional building, machinery, irrigation facility, and decision on soil conservation, how much capital to borrow, and planning of what types of crops and livestock produce. Organizational decisions tend to be long run decisions, which are not modified or evaluated more than once a year.
2. **Operational decisions/ tactical/short run decision**: are made more frequently than organizational decisions, a day to day activity, and short term in nature, small in investment and relate to the many details necessary to implement the plan of the business. They may need to be made on a daily, weekly, or monthly basis and are repeated more often than organizational decisions as they follow the routines and cycles of activities. Examples of operational decisions are: Choice of crop varieties, Right time of sowing & method of sowing, Selecting fertilizer and seeding rates for a given field and year, Making changes in a livestock feed ration, Selecting planting and harvesting dates, marketing decisions, and daily work schedules.
3. **Administrative decision:** are decisions to be taken administratively to achieve the goal of the organization. Examples of administrative decisions are: Financing- optimum utilization of funds like Sources of funds, supervision, Accounting- farm recording, Adjustment of farm plan / business with a change in government policies and strategies, Home consumption or market.
4. **Marketing decision -On buying (inputs)**

**- On selling (out puts)**

### **1.4.2. Steps of decision making process**

1. **Identify and define the problem:** Many problems confront a farm manager. Identifications of problems need attention. Manager must be alert to identify problems and identifying them as quickly as possible. Once the problems identified, they should concisely defined. Good definitions of problems will minimize the time required to complete the remainder of the decision-making steps.
2. **Collect relevant data, facts, and information:** Once a problem has defined and identified the next step is gathering data, relevant facts, evidences and information. The concise definition of problem help to identify the types of data needed. Data may be obtained from various sources. Whatever the source, the relative accuracy and reliability of the information obtained should consider.
3. **Identify and analyze alternative solutions:** Once the relevant information is available the manager can begin listing alternatives, which are potential solutions to the problems. The technique of brainstorming can be used and list any idea which comes to mind. Each alternative should be analyzed in a logical and organized manner to ensure accuracy and to prevent something from being overlooked. Good judgment and practical experience may have to substitute for expensive information.
4. **Make the decision –Select the best alternative:** Selecting or choosing the best solution / the best alternative to a problem is not always easy, nor is the best solution always obvious. Till to get the best solution, it may need to go back, redefine the problem, and go through the decision making process again.
5. **Implement the decision:** Selecting the best alternative will not give the desired results unless the decision is correctly and promptly implemented.Resources may need to be acquired and organized, which requires some physical actions to be taken. To do or not to do may be an alternative and potential solution to a problem, but should be done after enough analysis to be sure that this is the correct decision.
6. **Evaluate the results and bear responsibility for the outcome:** Responsibility for the outcome of the decision rests with decision maker. It is difficult for the managers to avoid decision-making; it follows that they must bear the responsibility. Not every decision will be a perfect one. Careful observation, gathering additional data and information as well as analysis can help to modify and improve the future decisions, and allow corrections to be made.

## **1.5. Farm Management Problems under Ethiopian Condition**

**1*. Small size of farm business***

**In Ethiopia:**

* 80- 90% of labour force engaged in agricultural sector
* Agriculture has about 50% contribution to GDP
* Agricultural sector also covers 90% of export earning
* Average land holding size 0.75ha and fragmented, difficult to manage or prepare farm plan
* High family size
* High dependency ratio
* less application of - intensive farming, Technology, double cropping

**But in developed countries:**

* 3-4% of labour force engaged in agricultural sector
* industrial sector contributes more to GDP
* main export earning is industrial sector

***2. Farm as a house hold:***

* Work habits of the farmers are closely related to food intake, sanitation and living condition as a whole
* Use of similar farming system
* Less application of specialization and diversification principles
* Subsistence farming, not promoting commercial farming

***3. Inadequate capital:***

Farmers do not have enough capital. On top of this, lack of availability of credit at required time, amount and need of collateral also other problem to farmers. Due to this farmers use less of modern technologies like;

* + fertilizer, improved seed
  + Different farm implements (water harvesting technologies, motor pumps etc.
  + irrigation technologies

***4. under employment:***

It means that farm family seems to be employed but not full employed due to:

* Small size of the farm
* Large family labour supply
* Seasonal nature of agricultural production
* Lack of subsidizing or supporting industries

This condition creates: Economic frustration, Social tension, Laziness/idleness. This in turn also reduces **efficiency and productivity** of rural farm.

***5. Slow adoption of innovation:***

Low income farmers are usually conservative and most time skeptical to adopt the technology easily.

***6. Inadequate supplies of inputs:***

Farmers face problems, in getting improved technologies, at required time, quantity, place and reasonable price.

***7. Lack of managerial skill:***

* the problem of solving economic problems
* managers are scarce
* illiteracy of farmers
* farmers wants to produce as usual

**8*. Lack of infrastructure***

* lack of transportation facilities to transport the products
* Lack of price information about input/out put
* Lack of communication facilities etc.