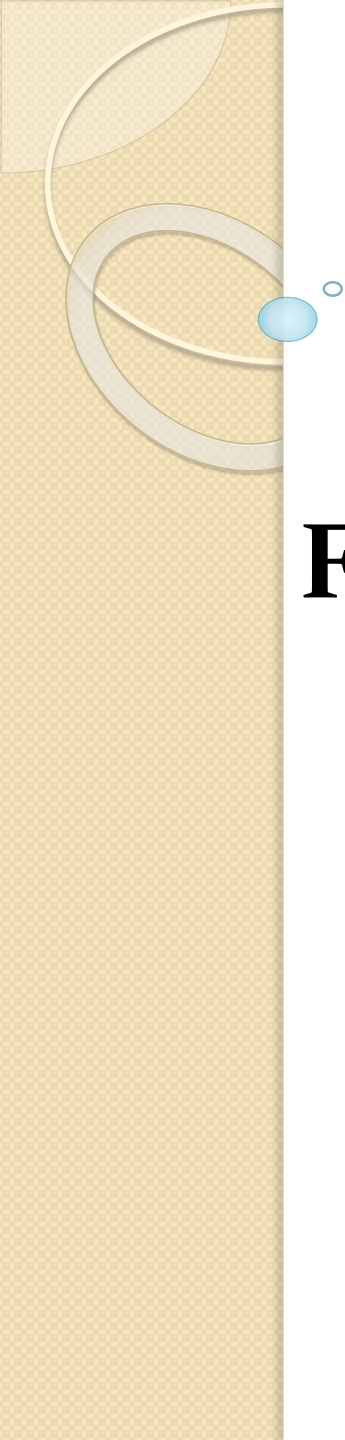




CHAPTER ONE

FARM MANAGEMENT; DEFINITIONS & CONCEPTS

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I.1 definition and scope of farm management

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

Farm is defined as:

- ✓ **A land** devoted to agriculture to **rare animals and grows plants** by the farm owner.
- ✓ The **land where crop and livestock enterprises are taken up under the farmer/ farm family control**
- ✓ A productive unit specialized in **converting resources 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:

- ✓ Is concerned with **meeting of goals**
- ✓ Is making use of available resource or allocating scarce resource in **efficient manner**.
- ✓ Is a process which directs action in to some goals through **planning, organizing, leading and controlling of resources** (financial and human resources).
- ✓ Is making a decision to increase net return or profit

Farm management is:

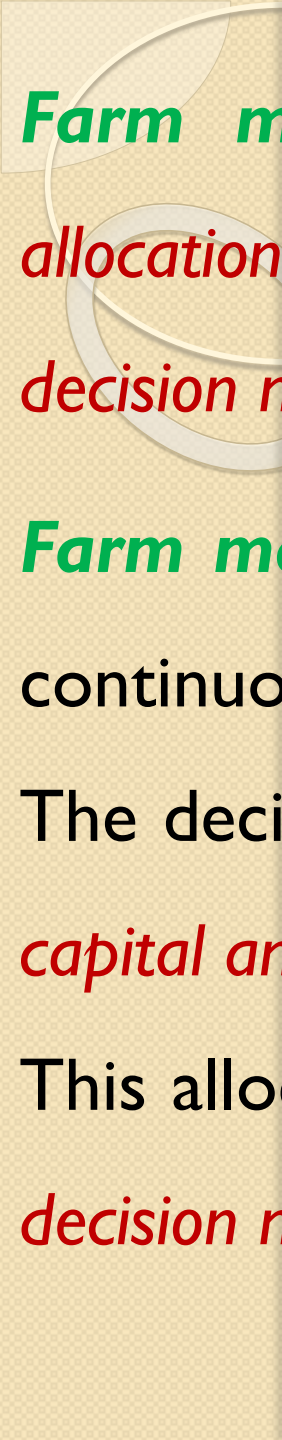
- ✓ A decision making process in a given farm whereby **limited resources are allocated in to a number of production units alternatively to attain some objectives**.
- ✓ Attainment of farm goals in an **effective and efficient** way through **planning, organizing, leading and controlling of farm resources**.

Definition of farm management by different authors

Farm management is concerned with how can the individual *farmer* *organize the factors of production* land, labor, and capital on his farm (Butter field, 1910).

Farm management is the art of *managing a farm successfully as measured by the test of profitableness*.(L.c.Gray)

Farm management is defined as a science of *organizing management of farm enterprise for the purpose of securing the maximum continues profit*.(G.F.Warren)



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 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, labor 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).

✓ Farm management may also be described as the **art and science** of organizing and operating a farm business.

✓ In this case again, there are two aspects/dimensions involved.

a) The **technical aspect**, calls for a **knowledge of the scientific principles and practical skills**, for example, of crop and livestock production.

b) The **business aspect**, which is a decision-making and organizational process, calls **for judgment and business acumen/ability**.

Farm management is a decision-making science. It helps to decide about the basic course of action of the farming business.

The **basic decisions** of the farming business are:

(a) What to produce or what combination of different enterprises to follow?

(b) How much to produce and what is the most profitable level of production?

(c) What should be the size of an individual enterprise, which, in turn, will determine the best overall size of the farm business?

(d) What methods of production (production practices or what type of quality of inputs and their combination) should be used?

(e) What and where to market?

1.2 Why study farm management?

What is the main aim of farm management????

- ✓ The main aim of farm management is to help in *realization of the maximum net profit from the various enterprises on a farm.*
- ✓ A typical farm is a combination of two or more enterprises and the chief aim of the farm manager would be to get the whole unit give *the maximum total returns.*
- ✓ It is not the return from anyone enterprise that determines the financial success of a farm, **but** it is the *total return from all enterprises that counts its success or failure.*
- ✓ A proper understanding of farm management principle helps in *selection combination and execution of enterprises, which are consistent to a sound agricultural policy.*

The management study is undertaken (**why management study is undertaken????**)

- ✓ To study the *input-output relationship in agriculture* and *determine the relative efficiency of various factor combination*.
- ✓ To *determine the most profitable crop production and livestock raising methods*.
- ✓ To *study the cost per hectare and per quintal or per kg*.
- ✓ To *evaluate the farm resource and land use*.
- ✓ To study the *comparative economics of different enterprises*.
- ✓ To determine the *relation of size of farm to land utilization, cropping pattern, capital investment and labour employment*.
- ✓ To study the *impact of technical changes on farm business*.
- ✓ To **find out ways and means for increasing the efficiency of farm business through better input -output relationship and proper allocation of resources among different uses**.

□ Why do some farm businesses **grow and expand**, while others **struggle to maintain their size**? Why the Difference? Usually this is due to the **Management**.

The **differences** due to management can be shown in three main areas;

1. **Production differences**; includes **choice** of agricultural commodities to be produced and **how they are produced**.
2. **Marketing differences** :- **When, where, and how of inputs are purchased** and **selling commodities (products) (prices differences)**
3. **Financing covers** - not only borrowing money and related questions of when, where and how much, but also the entire area of **how to acquire the resources necessary** to produce agricultural commodities.

The **risks** have to be considered in **all the three areas (pxn, financing ,and marketing)** – i.e. **how a farm manager adapt to and handle the risks can have a major impact on profit.**

- ✓ In every association or system, management is the key ingredient.
- ✓ **The manager makes or breaks the business.**
- ✓ In agriculture, management takes a different dimension especially with *uses of many technological innovations, and mechanization.*

1.3 Nature and Characteristics of farm management

- ✓ It's a **practical science**, because it aims with testing the applicability and practicability of innovation at farm level
- ✓ It is also **studies with the practical problems with the practical solutions**
- ✓ It is also **profitability oriented**; this means agronomists interested in maximum yield but economists interested in maximum return/profit. Farmers also interested in maximum return not maximum yield.
- ✓ Farm management concerns with **economic efficiency** not physical (technical) efficiency. Physical (technical) efficiency mean quantity, but economic efficiency means money.

Supplementary sciences

- ◆ Statistics
- ◆ Maths
- ◆ Political relationship (political science, laws) ex. tenure systems, ceiling of land holding, subsidies, food and other laws

Physical and biological relationship

- ◆ Agronomy
- ◆ Soil science
- ◆ Agricultural engineering
- ◆ Animal husbandry
- ◆ Plant breeding
- ◆ Entomology, pathology etc.

Farm management

Social relation ship

- ◆ rural sociology
- ◆ psychology ex. Ethics, religion, habits, culture, values, customs

Economic relation ship

- ◆ Basic economic principles
- ◆ Agricultural marketing
- ◆ Price analysis
- ◆ Agricultural cooperation etc.

I.4 Farm Management Problems under Ethiopian Condition

I. Small size of farm business

In Ethiopia:

- ✓ ***72.7 % of labor force engaged in agricultural sector***
- ✓ ***Agriculture has about 36.2% 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 labor 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 fully employed due to:

- ✓ ***Small size of the farm***
- ✓ ***Large family labour supply***
- ✓ ***Seasonal nature of agricultural production***
- ✓ ***Lack of subsidizing or supporting industries***
- ✓ ***Lack of off-farm employment activities like petty trade,***

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. This is due to **risk aversion**. There are farmers who prefer risk and there are also farmers who prefer averse.

Risk preference: a person who *wants to take a risk and maximize profit.*

Risk averse: a person who *does not want to take risk and wants to get a usual profit.*

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:

- ✓ 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.

Q. *What are other problems ? How can we reduce such problems ? What are your roles ? What are government roles ? What are farmers roles ?*