Making good business decisions[1]

Some basic rules

In business, success comes to the people who get the big decisions right. Making good decisions, however, isn't easy.

To make better business decisions, farmers need to:

- Have a clear vision for the future of their business
- Understand and consider the risks and uncertainties
- Acknowledge the non profit-maximising influences on their decision making
- Understand that we all have prejudices and biases that impact decision making
- Talk to the people who are affected by a decision and take into account their views
- Develop the skills to ask the right questions and gather and analyse enough relevant information to be confident about the decision
- Have processes in place to review and improve decisions

Decisions on farms are often complex in nature as they:

- Involve a high degree of risk and uncertainty
- Incorporate people issues including social and psychological pressures
- They often have to be made with insufficient or poor quality information

Robust Decision-Making

Robust decision making requires a risk management approach to decision making, by enquiring into the uncertainty of a scenario, i.e. what type of risk are we dealing with? How does the uncertainty impact upon our desired outcome? A decision can then be made to cope with a variety of futures.

A robust decision (or solution) is one that:

- Remains viable under the widest range of probable futures
- Increases flexibility and provides options
- Fits in with other proposed actions
- Can be implemented within planned budgets or is based on evidence that is good enough to justify additional investment to a third party (e.g. your bank)

People Issues

'People issues' cover a broad range of social and psychological factors that have a great influence on the decisions we make.

Social considerations are often more influential on farmer decision making than profit maximisation. This seems obvious, yet most discussions and tools still focus on profit factors.

Social considerations involved in decision making can involve personal attributes such as:

- Competitiveness, compassion
- Attitude to risk and growth
- Desire to be aligned with peers and neighbours

There are also strong social ties that complicate decision -making, including connections to family, community and the land.

Dealing with the complexity of social issues often requires a higher level of people skills in comparison to production issues that are often solved using technological developments. Farmers require the skills to assess the many options available in order to determine the most appropriate action for their situation. This may involve engaging advisors, working in a collaborative learning environment, and/or improving their level of knowledge.

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1 Adapted from the Innoveg factsheet 'Business Decision Making', prepared for Horticulture Australia by Nigel McGuckian and Adrian Kennelly, RMCG, 2011.

Getting Good Information

When we fail to rationally consider risk, simple decisions can become complex because unnecessary uncertainty is introduced. The best practitioners reduce uncertainty and unwanted risks through analysis and use their intuition to deal with the uncertain elements of complex decisions.

Clearly, there is a line between too much and not enough analysis. This line changes based on experience and the challenge is to determine at which point any further analysis will not reduce uncertainty. Finding and analysing the right information will reduce the complexity of decision making.

Asking the Right Questions

The first and most important part of decision-making is being clear about what the decision is. It is very useful to turn the decision into a question.

For example, you may want to expand the business. The range of questions relating to this goal includes:

- Will purchasing a neighbouring property improve our profitability?
- Should we build a new dairy?
- Should we employ a manager?

Sourcing the Needed Information

Having defined the question, you will then need to determine what information is needed to answer the question. For example, when asking 'Will purchasing a neighbouring property improve our profitability?' the relevant information should include:

- An analysis of farm profitability for the past five years
- An estimate of the profitability of the new property
- The requirement for borrowing and the interest rates
- A list of extra capital required to develop the new property

Analysing the Information

Once you know the question and have the information, you can analyse the proposal using the following rules:

- Only count the extra income and extra costs – the things that will change your profit
- Don't forget the costs saved and income foregone from the change – they are 'extra' too
- Value your capital – whether borrowed or not, it costs you, because you could pay off debt, or invest it elsewhere

Integrated Decision Making

Decisions are never made based on isolated pieces of information – rather they consider the whole farming system incorporating personal, financial and environmental aspects as shown in Figure 1. Considering how the different components of the farming system interact can be useful in understanding the impacts of decisions.

It is important to understand your decision-making strengths and weaknesses, and to be brutally honest about your personal prejudices and biases when making a choice.

Some people are highly skilled at putting all of the parts of the decision process together. People often resort to using 'gut feeling'. The reason 'gut feeling' is useful and appropriate for complex decisions is because we need to use our experience to take into account many factors at once and come up with the best decision in the circumstances. So, don't be afraid after you have done all the steps in this section to listen to your 'gut feeling'.

Aspects and context of farming businesses to be considered when making decisions