

# FARM BUSINESS MANAGEMENT FACT SHEET

## SOUTHERN REGION

### MAKING EFFECTIVE BUSINESS DECISIONS

Decisiveness is a well recognised skill in business and is the result of an effective decision making process.

Decisiveness is a widely admired and recognised skill in business. Ensuring the decision-making process is effective is very much dependent on the people and resources involved in the business.

Some decisions are made intuitively on a daily basis, while others require careful consideration, gathering of information and sometimes external guidance. Whether your decision-making skill is an innate gut feeling or learnt over the course of years, you can practice becoming a more effective decision-maker.

Reflect how decisions are made in your farming business, and identify where there are opportunities to make more effective business decisions.

#### How are decisions made?

There is no right or wrong way to make a decision. However, learning to make more effective decisions requires an understanding of the decision making process. This will also help manage the impact of personal bias and emotion.

Each decision follows the same basic decision-making process as outlined in Figure 1. The speed at which the process occurs varies depending on the type of decision being made. The importance

#### KEY POINTS

- ▶ Effective decision-making is at the core of successful farm business management.
- ▶ Making informed, logical and timely business decisions is crucial to achieving business objectives.
- ▶ Understand the different elements that influence how decisions are made and the possible outcomes.
- ▶ Consider who is responsible for the final decisions in the different areas of your farm business.
- ▶ Ensure the decision is finalised and implemented in a timely manner.

of the decision, the frequency it is made and the information available to the decision-maker, all impact on the length of time spent on the individual steps in the decision-making process.

Strategic and complex decisions generally demand a systematic approach. Effective decision-making in these situations involves collecting facts, evidence and data to support or challenge an initial gut feeling. Time should be spent analysing information and considering different options before making a strategic decision. Strategic and complex decisions should involve discussions with other members of the business and potentially external advisers.

#### In a family, business, or farm setting decisions are often made in one of four ways:

- ▶ **Autocratic** – made by one person who takes control and is responsible for the final decision; the fastest way to make a decision; lacks group or team ownership.
- ▶ **Democratic** – made on the basis of majority rules; encourages participation; good for large groups.
- ▶ **Consensus** – made by the group; fact based; lists the pros and cons; seeks consent of all participants.
- ▶ **Collaborative** – constructively explore the different options; can be time-consuming; preferred option for major business decisions.

Think about the way decisions are commonly made in your farming business. Does it vary depending on the importance, complexity or impact of the decision and the outcomes?

**FIGURE 1** The steps in the decision-making process.



## Decisions can be:

- ▶ **Simple** – these are the easiest decisions to make. They have few variables and a clear right or wrong outcome. Often these decisions are made automatically or intuitively, such as when to stop work and collect the children from the school bus.
- ▶ **Complicated** – these decisions have several variables with clear relationships but generally require new knowledge or information, such as crop type and variety choice.
- ▶ **Complex** – involves several ‘complicated’ decisions that are interlinked. There are multiple variables and the trade-offs are difficult to quantify or compare easily, such as machinery purchases or expanding farm scale.



"OK, all those in favour of delegating decision-making, shrug your shoulders"

on-one situations, consulting an adviser or mentor. The internet is a common source of information and provides an opportunity to get feedback through social networks.

It is important to be clear who is responsible for making the final decision. This may vary depending on what the decision relates to within the farm business. Sometimes, a group discussion about the different options can be confused with making a final decision. Make sure the discussion is drawn to a conclusion and the decision is clear to all. Once a decision is made, the next step is to communicate the decision to all parties and ensure it is carried out.

The individual responsible for the final decision should guide the implementation. For example, when developing a grain marketing plan, external advice can be coupled with a discussion between all members of the business. Then, once a decision is made, one person can be clearly identified to implement the grain marketing plan at key points.

## Types of decisions

Decisions are made at different management levels within a business. They generally fall into one of four categories:

1. strategic or long-term;
2. tactical or within a single production season;
3. operational or short-term; and
4. transactional or daily tasks.

The sources of information, complexity of the decision and frequency it is made varies for each of the different levels, as outlined in Figure 2.

For example, long-term strategic decisions are likely to be more complex and require external information or advice. However, they are made less frequently than operational or daily transactional decisions.

A strategic decision about land use, adopting a new enterprise, or farm expansion can require analysis of factors such as finances, profitability, plant and equipment capacity and land class suitability. This type of strategic decision making is important for determining the most appropriate farming systems and can often involve more than one external adviser as well as all members of the farm business.

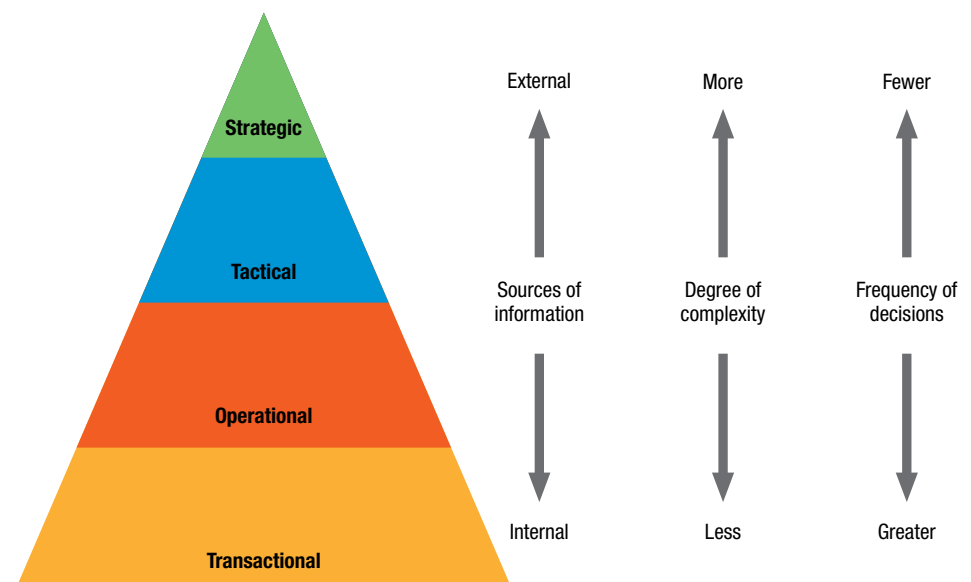
Tactical decisions are similar. They can be complex and may require some outside input. Tactical decisions are those made around crop type, rotations and sequences.

In contrast, operational decisions such as paddock sowing order, seeding depth and

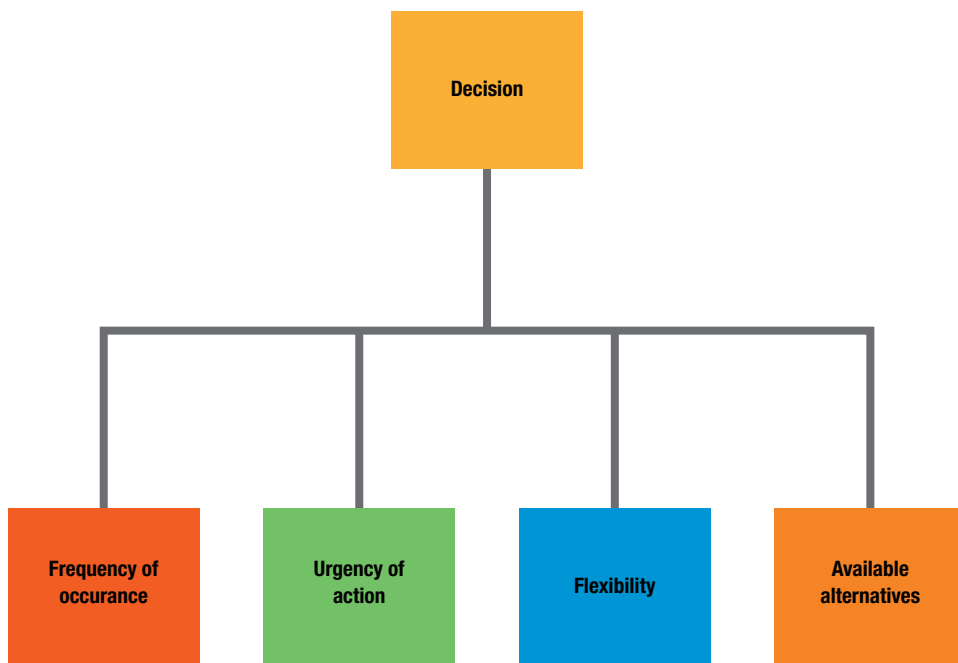
**Tip: Discussing major decisions with knowledgeable neutral individuals can help identify a number of potential options.**

Resources are available to help during the stages of the decision-making process. Some people like to attend field days, information sessions and discussion groups when collecting data and information to assist them identify and analyse the alternatives. Other people feel more comfortable in one-

**FIGURE 2** An illustration of the different levels at which decisions are made within a business showing the relationship with information, complexity and frequency.



ADAPTED FROM STEARNS, L.D. (1990) INFORMATION USED BY FARMERS FOR DECISION MAKING. UNPUBLISHED PHD THESIS. NORTH DAKOTA STATE UNIVERSITY OF AGRICULTURE AND APPLIED SCIENCE.



**FIGURE 3** There are a number of influences when making important decisions.

rate, or fertiliser and pesticide use, are made regularly throughout the year. Operational decisions and skills make sure the farming system is efficient and productive.

Transactional decisions, generally made on a daily basis, are often the most straightforward, made regularly and rely on internal sources of information. Examples include deciding the amount of land and which paddocks should be sown each day, or which tractor to use for different tasks.

### Skills and knowledge

Developing the skills and knowledge to make effective business decisions is important for driving profitable farming systems and enterprises.

Decision making skills are often overlooked when assessing the strengths and weaknesses of a business and its personnel.

However, these personal management skills are likely to be more important than actual business assets when assessing the potential of an individual farm business.

Access to whole farm or enterprise records supports the analysis of how efficiently an enterprise is operating, and can point to areas where decisions need to be made to improve profitability.

If there is good quality, relevant data then less time is spent debating the data and more time is spent assessing the options.

*Tip: What records does your farm have to support your decision making? Can they be accessed and analysed easily and quickly?*

### Influences

An individual's reaction to a given situation, how they think and their previous experiences are central to effective decision-making.

When making decisions there are often many factors that can influence the decision making process and therefore the final outcome (Figure 3). These include the frequency that the decision is made, the urgency of the actions around the decision, and the flexibility and number of alternative options available.

### Timeline

All decisions have an optimal timeline in which they need to be made. In some instances the timeline may be extended, however, usually the decision needs to be made within a certain period to optimise the outcomes.

Often operational decisions need to be made urgently once a problem is identified, therefore thinking ahead and anticipating upcoming decisions is particularly important. Where possible, allow time to plan ahead and collect information that is likely to be needed in advance to avoid rushing an important decision.

An effective manager must determine the appropriate amount of resources and time to spend when making individual decisions. Knowing when to stop investigating and actually make a decision is important and avoids 'paralysis by analysis'.

*Tip: Avoid potentially missing an opportunity because a decision wasn't made in time. Be particularly conscious of procrastinating for too long on decisions that have a relatively small impact.*

### Thinking styles

Other factors such as goals and management style, attitude and personality can also impact the decision-maker's approach as most family farming encompasses business and personal goals. Understanding different thinking styles can help explain different approaches to decision making.

Individuals use different cognitive or thinking styles when making decisions. Some use linear or systematic approaches, where facts are gathered, advantages and disadvantages are analysed, and decisions are generally easily explained. Others use non-linear or intuitive approaches that typically look at the relationships of the different options and the possibilities and assumptions for the future. In this case, the final decision or course of action may be harder to explain to an external party.

One approach is not necessarily more effective than the other and a mixture of both can deliver the best outcome. However, being aware of the influences involved can help determine if the final

### To improve the profitability from decision-making:

- ▶ increase **skill** levels in relevant operational areas, such as agronomy and logistics;
- ▶ increase **understanding** of enterprise relationships and interactions;
- ▶ maintain **accurate and accessible** farm and enterprise records; and
- ▶ improve **knowledge** of alternative farming and practices, and adapt operational decisions to suit the system.

decision is rational. Often non-rational influences are based on an individual's emotions, and acknowledging such influences will make decision-making more effective.

### Experience

Severe events such as drought and natural disasters can bias a farmer's decision-making without them being aware. While personal experience is valuable, it can override more rational possibilities when emotions take over.

Think about whether the decision is being heavily influenced by past experience, peer groups or research information. This

can help when explaining the decision and outcomes to different people, and determining whether it is the most appropriate option. A good check is to ask if the decision makes common sense and has positive benefits.

### Sound decisions – good outcomes

Top farmers consistently make effective decisions despite seasonal, price and cost variations. Identifying appropriate decision outcomes requires a sound understanding of the various sources of risk, their chances of occurring and their impact on the business and people involved.

An appreciation for the decision-making process can assist in achieving timely, effective and profitable outcomes. In some instances deferring a decision is a legitimate outcome.

To make more effective decisions:

- ▶ be clear on the desired outcome;
- ▶ be objective and communicate clearly;
- ▶ listen to your gut feeling, be aware of your emotions, but also consider the data and information available to you;
- ▶ discuss the alternatives with business partners and an external source such as a neighbour, trusted adviser or discussion group; and
- ▶ Try not to procrastinate in making the decision.

Ultimately, you need to be satisfied that the right decision has been made given the context, data available and relative impact on the business at the time.

## FREQUENTLY ASKED QUESTIONS

### How do I know if I have made the right decision?

Sometimes a decision can be the right decision given the information and resources available at that point in time. Timing and luck can play a role in the outcome. It is easy to say "in hindsight maybe we should have ..."; however, if you accessed objective information, analysed the possible options and involved other people in the decision-making process, you made the right decision at the time.

### Who should be involved when making a decision?

It depends on the type of decision being made. Strategic or tactical decisions should involve all members of the farm business, including family. They also benefit from some form of external input, which may be from an agribusiness consultant, financial planner, accountant, agronomist or a mix.

Operational decisions are more likely to involve knowledge from within the business, or occasionally from a specialist adviser depending on the nature of the decision. Transactional or daily decisions are generally made by one person, especially when they need to be made urgently.

### How do I become a better decision-maker?

Understanding the process and influences involved when making decisions can help you become a more effective decision-maker. Practise is also important. When you make a decision, reflect whether or not it achieved the desired outcome, and why. Visualise which step you are at in the decision-making process (Figure 1) and mentally categorise the decision as strategic, tactical, operational or transactional.

### How can my neighbour make good decisions quickly?

It may appear that the neighbour makes effective decisions quickly. However, they have most likely planned ahead and gradually built up the knowledge and resources so that when an important decision needs to be made, they can do so in a timely manner.

## PROJECT CODE

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