Why Bother Making Decisions?

- Decisions are hard, especially when you have lots of choices and uncertainty.

Why Bother Making Difficult Decisions?

- Decisions are the only way you can purposefully influence your life.
- Decisions is your opportunity to earn a competitive advantage.
- Decisions are opportunities to make choices.

Proactive Decision Making

- Decisions should be viewed as an opportunity to make choices that help you accomplish your objectives in life.
- Focus on objectives first, then choices.
- Clear objectives help identify decision opportunities that lead to smart choices.
**Definitions**

- **Attributes** – things you value and measure (profit, debt, happiness, etc.)
- **Objectives** – directions of improvement of one or more attributes like increasing profit or decreasing debt, etc.
- **Goals** – combining an attribute with an acceptable target level of achievement.

  Goal: Debt reduced to less than 20% of asset value.

**Objective Focused Thinking**

- **Clear objectives**
  - help identify choices you can make
  - help determine the information you need
  - help determine the importance of decisions
  - help you evaluate your decision choices
  - help explain the choices you make to others.

- Let your objectives be your guide.

**Objective Focused Thinking**

*Identifying Objectives*

Create a wish list of objectives you hope to accomplish by facing the decisions in front of you.

**Smart Choices in Agriculture**

A Decision Making Process

- **Identify Decision Opportunity**
- **Establish the context**
- **Objective(s) Involved**
- **Internal Context**
- **External Context**
- **Risk Identification**
- **Generate Alternatives**
- **Assessment**
- **Evaluate Consequences**
- **Risk Analysis**
- **Evaluate Tradeoffs**
- **Make the Decision**
- **Implementation**
- **Communication & Consultation**
- **Monitor, Measure & Review**
Identify Decision Opportunity

- Recognize opportunity to make a choice
  - Alternatives (choices to choose from)
  - Objective(s) (reason(s) to choose)

What should I do to comply with my CRP requirements?

Objectives

- What are you trying to accomplish by making this decision?
- What are you trying to avoid?

Objectives

Decision Process

Identify Decision Opportunity:

*What should I do to comply with my CRP requirements?*

Objectives:

- Must be done by Sep. 30
- Cannot graze from May 15 to July 15
- Don’t want it to be too big of hassle (low time)
- Don’t want it to cost too much & prefer to make money (higher profit)

Establish the Context

- Internal context
  - What is the situation within the organization?
- External context
  - What is the situation outside the organization as far as the environment you are making the decision in?
Internal Context

- Objectives, strategies, and policies
- Structure (roles, responsibilities)
- Knowledge, skills, and resources
- Relationships between other parts of the farm or ranch
- Strengths and weaknesses

External Context

- Trends and key drivers
- Perceptions of key stakeholders
- Economic situation (markets, etc.)
- Social and political environment
- Technological environment
- Environmental and legal situation
- Opportunities and threats

Establish the Context

<table>
<thead>
<tr>
<th>Internal Context:</th>
<th>External Context:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good water source for livestock</td>
<td>Nearby road provides access</td>
</tr>
<tr>
<td>No fencing</td>
<td>Cattle markets are down</td>
</tr>
<tr>
<td>Grazing practice approved with FSA</td>
<td>Hay prices are down</td>
</tr>
<tr>
<td>Good nearby grass can be used too</td>
<td>Grazing land is fairly expensive</td>
</tr>
<tr>
<td>Growing wheat nearby</td>
<td>Must be careful not to overgraze</td>
</tr>
<tr>
<td>I don’t have cattle but renter does</td>
<td>Strict rules within CRP</td>
</tr>
<tr>
<td>Renter relationship is good</td>
<td>Good relationship with FSA office</td>
</tr>
<tr>
<td>Spring is a busy time</td>
<td>Transportation could be an issue</td>
</tr>
</tbody>
</table>

Definition of Risk

- RISK is the effect of uncertainty on your objectives.¹
  - How does uncertainty affect the likelihood you will accomplish your objectives?
  - Risk has both positive and negative effects.

¹ANSI/ASSE/ISO 31000 Risk Management Principles and Guidelines
Sources of Risk in Agriculture

1. Marketing/Price Risk
2. Production Risk
3. Institutional/Legal Risk
4. Human Risk
5. Financial Risk

Risk Identification

Risk and Uncertainties:
- Livestock markets could go up or down
- Livestock health issues could cause death or extra expenses
- Weather could affect production performance up or down and land condition
- Animal handling could cause injury
- Time required could be more or less
- Observers could view practice unfavorably or favorably
- Fencing could be of uncertain value in the future

Generate Alternatives

- Alternatives are possible courses of action
- Use your objectives and ask “How?”
- Be creative and imaginative
- Challenge constraints
- Do your own thinking first, then ask others for suggestions. Keep an open mind!
- Iterate and generate better alternatives

Generate Alternatives

Alternatives:
1. Have renter run cattle on it and temporary fence it
2. Advertise and rent to the highest bidder without fencing in place
3. Get stocker cattle of my own and graze it (temporary fencing installed)
4. Install fence and then advertise for late summer grazing
5. Approach FSA about alternatives other than grazing
6. Partner with renter on livestock purchase and grazing arrangement
Evaluate Consequences

- How well does each alternative address the objectives associated with the decision?
- Gather relevant and reliable information to help you understand the consequences of each alternative.
- Use experts wisely and do your own trials.
- Don’t rely on only hard data. Even best data only describes the present or the past. Decisions are about the future.
- Use appropriate scales and be realistic about precision.

### Consequences

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Time (0-none; 3-lots)</th>
<th>Profit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Renter/temp fence</td>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>2. Highest bidder/no fence</td>
<td>1</td>
<td>$1600</td>
</tr>
<tr>
<td>3. Own stockers/temp fence</td>
<td>3</td>
<td>$2600</td>
</tr>
<tr>
<td>4. Install fence/advertise</td>
<td>2</td>
<td>$3000*</td>
</tr>
<tr>
<td>5. Approach FSA/alt.</td>
<td>2</td>
<td>$1000</td>
</tr>
<tr>
<td>6. Partner with renter</td>
<td>1</td>
<td>$1300</td>
</tr>
</tbody>
</table>

*Fence amortized over 30 years

Risk Analysis

- Clarify consequences
  - Clarify uncertainties (ranges & probabilities)
  - Clarify risk sources
- Incorporate risk tolerance into decision
- Duel focus on negatives & positives
- Consider linked decisions

Risk Identification

- Livestock markets could go up or down
- Livestock health issues could cause death or extra expenses
- Weather could affect production performance up or down and land condition
- Animal handling could cause injury
- Time required could be more or less
- Observers could view practice unfavorably or favorably
- Fencing could be of uncertain value in the future
**Evaluate Tradeoffs**

- Look to simplify decision
  - Eliminate dominated alternatives
  - Pairwise comparisons
- Ignore irrelevant objectives
- Fully incorporate risk and uncertainty
  - Risk tolerance and upside opportunity
  - Linked decisions

### Risk Analysis

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Consequences</th>
<th>Risk Sources (+ uncertainty)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alternatives</strong></td>
<td><strong>Time</strong></td>
<td><strong>Profit</strong></td>
</tr>
<tr>
<td>Renter/temp fence</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Highest bidder/no fence</td>
<td>1</td>
<td>2</td>
</tr>
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<td>2</td>
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<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Approach FSA/alt.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Partner with renter</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

### Risk Sources (+ uncertainty)

- Market
- Production
- Institutional
- Human
- Financial

<table>
<thead>
<tr>
<th>Risk Sources (+ uncertainty)</th>
<th>Market</th>
<th>Production</th>
<th>Institutional</th>
<th>Human</th>
<th>Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renter/temp fence</td>
<td><strong>++</strong></td>
<td>++</td>
<td>+</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>Highest bidder/no fence</td>
<td>+</td>
<td>++</td>
<td><strong>++</strong></td>
<td>++</td>
<td>++</td>
</tr>
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<td>++</td>
</tr>
<tr>
<td>Partner with renter</td>
<td>+</td>
<td>++</td>
<td><strong>++</strong></td>
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<td>++</td>
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### Evaluate Tradeoffs

- Look to simplify decision
  - Eliminate dominated alternatives
    - Pairwise comparisons
- Ignore irrelevant objectives
- Fully incorporate risk and uncertainty
  - Risk tolerance and upside opportunity
  - Linked decisions

### Risk Analysis

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<tbody>
<tr>
<td><strong>Alternatives</strong></td>
<td><strong>Time</strong></td>
<td><strong>Profit</strong></td>
<td><strong>Likely</strong></td>
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<tr>
<td>Renter/temp fence</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>Highest bidder/no fence</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
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<td>3</td>
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<td>+</td>
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<td>++</td>
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</table>
Evaluate Tradeoffs

<table>
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<th>Alternatives</th>
<th>Consequences</th>
<th>Risk Sources (+ uncertainty)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Likely</td>
<td>Worst</td>
</tr>
<tr>
<td>Renter/temp fence</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Highest bidder/no fence</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Partner with renter</td>
<td>80%</td>
<td>20%</td>
</tr>
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- The real tradeoff to consider is less time in (1) compared to more profit potential w/ more risk in (2) and (6).
- Comparing (2) and (6), ready to possibly eliminate (2) because of downside profit risk but worth doing more analysis on it.

To be continued ....

Make the Decision

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<td>20%</td>
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</table>

**Decision:**

- Offer it to renter to put a temporary fence up and run cattle at no charge

Implement the Decision

- Commitment to action
- Mandate to take action
  - Resource allocations
  - Resource flow coordination
- Create an action plan
Implement the Decision

<table>
<thead>
<tr>
<th>Action Plan</th>
<th>Next Steps</th>
<th>Deadline</th>
<th>Responsibility</th>
<th>Done</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact renter w/ offer terms</td>
<td>Mar 10</td>
<td>Me</td>
<td>March 2</td>
<td></td>
</tr>
<tr>
<td>Confirm w/ FSA</td>
<td>Mar 25</td>
<td>TBD (me/renter)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key Principles

**Good Risk Management Culture**

1. Ability to anticipate decisions
2. Adequate resources and capacity to respond to changing conditions
3. Free flow of information into and throughout the organization
4. Willingness to learn and adapt
5. Risk management is embedded in all decision making processes

**Take Home Points**

- Good decision-making skills can be learned.
- Focus on accomplishing objectives.
  - Proactively look for opportunities to make smart choices that lead to objectives.
  - Systematically process and evaluate information
- Embrace uncertainty
  - Imbed in decision making
  - Opportunity to manage to an advantage
People make thousands of decisions every day. These decisions shape lives and determine futures, some of them in very significant ways. However, some argue that the ability to make good quality decisions is contrary to human nature (Spetzler, et al.). Stress, time constraints, and uncertainty can amplify this situation and lead to mistakes that are difficult to overcome.

In a recent survey by the Department of Agricultural Economics at the University of Nebraska and the Nebraska Department of Agriculture, it was revealed that 54% of Nebraska agricultural producers are currently experiencing a great amount of financial stress. In stressful times, it is important to focus on making good decisions. But, what do good decisions really look like? In what follows, I draw on the work of Hammond, et al. (1999) and Spetzler et al. (2016) to offer seven characteristics of a good decision.

1. An appropriate decision frame

To make a good decision, you need more than just a list of choices. An appropriate decision frame captures the context in which you are making the decision. This includes both the internal environment and the external environment in which you are making the decision. Above all, it also includes the objective(s) you are trying to accomplish by making the decision. With an appropriate decision frame, you can grow your list of choices as large as needed to find the best alternative to get you from where you are currently at to where you want to go after making the decision.

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2. Clear values to adhere to and objectives you are trying to accomplish

Identifying the objective(s) you are trying to accomplish is part of properly framing a decision. These objectives need to be clear and align with your values. Why is this so important? Because your objectives form your decision criteria, help determine what information to seek, help you explain your decision choice to others, and help determine how important the decision is to you and how much time and effort you should expend on making it. When you look back on a decision, you should clearly see how the choice you made helped you fulfill key objectives and adhere to your values better than the other alternatives available at the time.

3. Creative alternatives to choose from

Two fundamental principles need to be kept in mind when generating alternative choices. First, the choice you make can never be better than the best of the alternatives you have to choose from and, second, you can never choose an alternative you haven’t considered. When you look back on a decision, you want to be able to say that you created an innovative list of alternatives. You thought outside the box and you iterated some original alternatives into better alternatives. It is much better to have too many bad alternatives on your list than not enough good ones. At the end of the day, it is much easier to make a good decision if you are trying to decide between several good choices.

4. Good information

We live in the information age but determining which information is important and reliable can sometimes be a challenge. You can easily become overwhelmed with information that is either not reliable or not relevant to the decision you are trying to make. A good decision uses reliable and relevant information while properly accounting for uncertainties. A laser focus on your objectives can help you achieve this task.

It is important to remember that there are no future facts. At best, good factual information only describes the present and the past. Decisions are concerned about the future and the future is full of uncertainties. Use experts wisely to help gather relevant information about what the future could look like but do so with a realistic view concerning uncertainty. When you look back on a decision, you want to be able to say that you incorporated the relevant facts known at the time and the best information about what the future could be into making your decision.

5. Clear tradeoffs and sound reasoning

One of the most difficult challenges in making decisions is grappling with tradeoffs involving multiple objectives. This is one of the reasons we often try to monetize everything and treat decisions as profit maximizing choices. However, seldom can this be done without some difficult discussions about what something is worth. In other words, grappling with tradeoffs between objectives can be difficult and requires sound reasoning. For example, if it is more important to have the capacity to harvest your crop within 10 days than it is to save $2,000 in interest then that needs to be reflected in the reasoning you use to make the decision.

Sound reasoning and evaluating tradeoffs also extends to consideration of downstream decisions. A decision made today usually impacts future decision opportunities and available choices. Decision trees can be useful in drawing out connections between the alternative choices under consideration and the impact they have on downstream decisions.

Finally, all of these tradeoffs and reasoning take place in a world that is filled with uncertainty. This needs to be reflected in your process. Appropriate scales need to be used and the tradeoffs need to reflect the accuracy of those scales. It is sound reasoning to treat two values as equal if they are close enough given the uncertainty surrounding them.

As you look at your decision, you want to be able to say that your reasoning was sound in evaluating how well each alternative choice would help accomplish the objectives you have for making the decision.

6. Choice alignment with values and objectives

If you make a good decision, you should be able to look back and say that the choice you made aligned well with your values and the objectives you were trying to accomplish. Sometimes, we forget to reflect on this before making our final choice. It is important to remember to do so because often one objective becomes too easy to focus on relative to the others and begins to dominate your selection process. A quick reflection on choice alignment with values and objectives can help prevent your decision from improperly reflecting an imbalance amongst your priorities.
7. Committed implementation

Finally, a good decision must be accompanied by a commitment to implement it. When you evaluate your decision, reflect on how committed you are to fully implementing your choice. When you look back on a decision, you want to be able to say that the choice was implemented completely and a committed effort was made to make it a success.

It is important to realize that even with all seven of these characteristics in place; good decisions can still lead to bad outcomes because of uncertainty. That is why you can’t judge the quality of a decision based solely on the results. Results are obviously important but habits that produce these seven characteristics describing the choices you make are even more important because they will more consistently produce good results.

References and Recommended Reading:


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University of Nebraska-Lincoln
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## Decision Process

<table>
<thead>
<tr>
<th>Identify Decision Opportunity:</th>
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<tbody>
<tr>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Establish the Context</th>
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<tbody>
<tr>
<td><strong>Objectives:</strong></td>
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<table>
<thead>
<tr>
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</table>

<table>
<thead>
<tr>
<th>Risk and Uncertainties:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>
Alternatives:

Consequences:

Objective Consequences

Risk:

Risk Analysis
Tradeoffs:

Decision:

Implementation:

Linked Decisions:
Smart Choices in Agriculture

A Decision Making Process

Identify Decision Opportunity

Establish the context
- Objective(s) Involved
- Internal Context
- External Context
- Risk Identification

Generate Alternatives

Assessment
- Evaluate Consequences
- Risk Analysis
- Evaluate Tradeoffs

Make the Decision

Implementation

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