



Farmers in Transition

Farm Family Decision-Making

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In any moment of decision the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing. Theodore Roosevelt

Successful managers must be good decision makers and capable decision makers are developed, not born. Decision-making is the process of choosing a course between alternatives to achieve a desired result. Good decision-making is an active process in which the manager is aggressively and personally involved.

Decisions can be categorized by the length of time it takes to observe the outcome of the decision: long-term, intermediate-term, and short-term. Long-term decisions may take years to make, implement, and evaluate. Intermediate-term decisions may take a year or less, whereas short-term decisions could take anywhere from a day to a few months to make, implement, and evaluate.

Efficient managers devote more of their time and resources to making long-term decisions than making short-term decisions. Intermediate and long-term decisions have a greater impact on the profitability of the farm than short-term decisions and should be given more time in the decision-making process.

Decision makers must weigh the positive and negative consequences of the decision. Effective decision-making requires good information, sound judgment, and flexibility; decision-making is not a guessing game. Too often decision makers get stuck in a rut, doing the same things over and over. Successful managers think of new, more efficient ways of doing things. They understand interrelationships among decisions and choose alternatives that make the greatest overall contribution to attaining farm/ranch objectives.

The success of a decision can depend on factors other than pure logic and sound information. Success often depends on emotions, beliefs, values, attitudes, and people whose cooperation is required. Good decisions do not just happen—they are the result of organizing information, structuring thoughts, identifying and evaluating alternatives, and balancing logic and emotions.

A Systematic Approach to Decision-Making

Having a method to help think through the decision-making process leads to clearer criteria and widens the search for solutions. The decision-making process can be outlined as:

- Define the problem.
- Examine the problem situation.
- Consider alternatives.
- Identify the best alternative.
- Do it! Implement the decision.
- Evaluate the consequences.

A decision-making worksheet (shown in Figure 1) may be helpful in summarizing aspects of a decision. If other members of the family are also part of the management team, involve them in decision-making. Complete decision-making worksheets independently and then meet together to develop a “team” worksheet.

Defining the Problem

- **What is the problem?**
- **What is or should be/could be happening?**

Decision-making helps resolve problems. A problem is a discrepancy between the manager’s goals and what is being achieved. Without identification and definition of the problem(s), no decision is necessary. Dig out the issues. Develop a list of possible consequences and conditions, both desirable and undesirable. Focus on the problem impact—the effect of the problem. Farm management problems tend to impact costs or revenues.

Defining the problem can help distinguish between the symptoms of the problem and the cause of the problem. Sometimes we try to sweep the real problem under the rug. The sooner the truth is faced, the quicker corrective action can be taken and the less trauma there will be in the long run.

- **What needs to be determined?**
- **What do you want to decide?**
- **Why?**

Don’t be satisfied with first answers to these questions. The purpose of a decision may be to reduce or prevent the undesirable consequences. If you have successfully determined why a decision is necessary, your answers should help you define your purpose. State the purpose as broadly as possible, avoiding either/or propositions. Specify something manageable and positive. Make sure the purpose is within

your power to control or at least influence. Try to state the purpose in the form of an opportunity (for example, determine the best way to . . .).

The statement of purpose is the most critical (and most often neglected) step in the decision making process. Failure to develop a statement of purpose can result in “seat-of-the-pants” decisions or action based on tradition and habit. Sound decisions require more thoughtful analysis. Tunnel vision is a common problem in identifying the purpose of a decision. Stating the purpose too narrowly artificially restricts the search for solutions. The more broadly the purpose is stated, the wider the search for solutions.

Paul and Lori Gates are a farm couple nearing retirement age. Although they would rather not get out of farming entirely, they would like to have more time to travel. They think they might take at least one extended trip per year. They would like to begin making plans to ensure that they have an adequate retirement income and can afford their travel plans. They also want to keep some farm assets to pass on to their daughter and son-in-law who currently farm in partnership with them. They realize that it will take some time to do some budgeting to see what various trips might cost, figure out how much income is needed for monthly living expenses, look at investment and estate planning alternatives, determine the tax implications of selling farm assets and talk to their children about their future plans. After some discussion, Paul and Lori state the purpose of their decision as “determine the best use of our financial resources for retirement.”

Examining the Problem Situation

- **What do you want to achieve with the decision?**
- **What do you want to preserve with the decision?**
- **What do you want to avoid with the decision?**

Set your criteria for decision making using the “What do you want to . . .” questions. List criteria for each category (achieve, preserve and avoid) and be as comprehensive as possible. Write down all criteria that occur to you, rational as well as emotional ones. Don’t be concerned if some of the criteria appear redundant or contradictory. You can refine them and weed out inconsistencies later. Make criteria as specific as possible. The best criteria are positive, not negative or reactive.

Establish your priorities. What are the criteria that any solution absolutely has to satisfy? What other criteria should it meet? Starting with your list of things to be achieved, preserved, and avoided, decide which criteria are “must haves” and which are “would likes.” Setting priorities puts first things first and last things last, and sets the stage for the search for solutions.

Your rankings should reflect both your needs and values. Don’t ignore criteria that others consider unimportant or even frivolous if those values are important to you. On the other hand, criteria must be grounded in reality. Always look for requirements so obvious that they might be unnoticed. For example, if a machinery purchase is being considered, a requirement might be that the widths not exceed that of local bridges or gates into fields.

Absolute requirements frequently involve numbers. If you are deciding on a vacation trip, don’t be content with stating

“the trip shouldn’t cost too much.” Specify that the trip will cost less than \$2,200, or whatever amount is appropriate. By quantifying whenever you can, you will develop a more useful yardstick for measuring possible solutions.

Don’t be concerned if you can’t identify any absolute requirements (“must haves”). It is perfectly possible for a decision to have desirable objectives (“would likes”) only. After you have identified absolute requirements, if any, assign relative values to the remaining ones. Sort the desirable objectives into categories of relative importance, assigning values to the desirable objectives from 10 for very high to 1 for very low priority. The criterion that is assigned a value of 10 becomes the standard by which less important objectives are measured. For example, a criterion which you regard as only half as important as the most important criterion gets a 5. These numbers become part of the weighting system for evaluating options and choosing a preferred solution. Begin by having management partners assign values separately so that their opinions are registered without the influence of other partners.

When you begin assigning numbers to criteria, you may have second thoughts. Some of your criteria may not be as important as you thought, or you may find that you haven’t stated them correctly or completely. Now is the time to restate, redefine and revalue them. Ideally, you should assign values to your criteria before you have thought of any possible solutions. Otherwise, you may stack the deck in favor of a pet solution.

Paul and Lori, after some deliberation, started to list absolute requirements in their decision about what to do with their financial resources in planning their retirement:

“Must Have” Criteria

Achieve

- Income of \$4,000 per month.
- Maintain savings “safety net” of \$20,000

Preserve

- Good relations with children

Avoid

- Major changes in lifestyle

“Would Like” Criteria

Achieve

- More time for community service
- More time for travel
- \$6,000 per year for travel expenses
- Less daily management responsibilities

Preserve

- Retain control of some land to be passed on to children
- Some voice in farm decision making

Avoid

- High income tax burden in any one year
- High estate tax burden

Criterion Rating

4

10

6

8

10

7

7

10

Considering Alternatives

- **How can you meet the criteria you have set?**
- **What are the possible courses or action?**

Search for ways to meet the criteria and objectives you have set. Too often alternatives are listed before criteria are

specified, arbitrarily restricting choices and increasing the likelihood of making a bad decision. List a range of possible courses of action, and gather information that may be helpful in making a final selection. Explore all the options that flow from your criteria. Do not prejudge them. Let the criteria judge them. How does each alternative stack up against the priorities? Seek ways of overcoming the weaknesses and combining the strengths of possible solutions to develop an even better one.

To specify realistic alternatives, you must be aware of all aspects of the decision-making environment, internal and external. Do you avoid risk or are you a risk taker? Are there constraints, such as available credit, that would prevent implementation of an alternative? What are your management strengths and weaknesses (marketing, finance/accounting, production, communication)? Are there external factors—economic, political, market, technological, global, environmental—that should be considered? What are the values and goals of employees or others involved in management decisions? More information may be needed to further define the characteristics of the problem and to determine what might prevent “what could be”.

Paul and Lori started with this list of alternatives for using their resources in retirement planning:

- A. Lease farm assets to daughter and son-in-law and maintain a small interest in the operation.
- B. Lease farm assets to highest bidder (farm partners, neighbors or other farm entities).
- C. Begin selling farm assets to daughter and son-in-law and invest the proceeds. If projected income is sufficient, transfer some assets to daughter and son-in-law as gifts.
- D. Establish revocable “living” trust for assets with daughter and son-in-law as beneficiaries. Daughter will serve as trustee.

Identifying the Best Alternative

Does your list of criteria suggest that one alternative is “best”?

An alternative must be both feasible and realistic. If no alternative emerges a clear winner, you can use a numerical standard to score each alternative solution in the same way that you rated criteria. Figure 2 shows how Paul and Lori scored alternatives for using their financial resources in retirement. Alternative B was eliminated from consideration after the “must have” criteria were identified when they realized that it did not meet their absolute requirements.

Rating the alternatives involves three steps:

1. Ask yourself how well each alternative meets each criterion. Using a 10-high scale, rate each alternative. If no alternative does a perfect job of satisfying a particular criterion the one that comes closest to doing so rates a 10. Just as you may have one or more criteria that rate a 10, you may have one or more alternatives that rate a 10 against each criterion.
2. Multiply the rating of each criterion by the rating of each alternative.
3. Add up the scores of each alternative and compare the totals. As a rule of thumb, the best tentative solution is one that scores at least 15 percent higher than the closest alternative and that also scores well on each of the highly

rated desirable objectives. Unless your choice meets both of these tests, you probably won’t feel confident that it is indeed the best solution.

If two or more solutions are close, you may find it helpful to go back and retrace your steps:

- Was the purpose stated correctly?
- Are there additional things to be achieved, preserved, or avoided that were not stated as criteria?
- Do the values assigned to the criteria accurately reflect your priorities?
- Have any other alternatives that deserve consideration been overlooked?
- Were the alternatives rated accurately and completely?
- Was a 10 rating used for the alternative that best satisfied each criterion and were others ranked in relation to it?
- Were any arithmetic errors made?

Implementing the Decision

The problem-solving process is incomplete until the decision is implemented and action is taken. It is important to note that failing to implement a decision is a decision in itself. Implementing the decision requires energy, organizational ability (for example, obtaining the necessary resources) and then timely action. Develop a strategy—a detailed, comprehensive and integrated plan—for implementing the decision. Decisions must be made quickly enough to be useful, but not ahead of their time. Postponing a decision may result in a lost opportunity.

- **What could go wrong with the solution I’ve chosen?**
- **How can significant weaknesses be overcome?**

Test your decision using realistic standards. Once a decision is made, we tend to become emotionally committed to it. The more difficult the decision, the more personally threatened we may feel by arguments that might “shoot it down.” List all the possible problems you can foresee. Keep in mind your experience, knowledge and research. Make a rough calculation of the likelihood of each problem occurring and the impact if it does occur. For example, you might budget returns to a wheat enterprise under high, medium and low price and yield scenarios. Take preventive action to cope with each potential problem. Create refinements that prevent, overcome, or minimize the dangers of the alternative you select.

Paul and Lori decided to begin establishing a revocable living trust for their assets. Income from the trust was expected to be sufficient for their needs. They met with their lawyer first to be sure they understood the advantages and disadvantages. They then met with their daughter and son-in-law to discuss their plans. Finally, Paul and Lori, their lawyer, and daughter and son-in-law met to finalize an agreement.

Evaluating the Consequences

The decision-making process is not complete until the decision has been reevaluated on the basis of the outcome achieved. Evaluate and adapt decision results—don’t inscribe plans in granite unless you plan to start a cemetery. Choices

you make today may be valid, but changing conditions can render them invalid tomorrow.

Successful Decision Making Tips

Establish realistic goals and expectations. Recognize your major assets and liabilities (managerial, financial and physical). Attend to important decisions even if this means neglecting less important areas. Decisions that are not easily changed are more important than decisions that can be easily changed. Some decisions can be revoked only at a considerable cost. Be careful to make decisions that permit flexibility as conditions change if revoking the decision could be costly. Have pre-established policies as a guide for action in routine situations. Implement systematic policies that are known to work in overcoming problems of a particular (but relatively routine) nature.

Other people who are well informed—specialists, family, friends—can't make a decision for you, but they can provide useful insights and information. Profit from other people's experience, expertise and help.

Avoid crisis decisions. Try to anticipate problems and avoid procrastination. Going systematically (if only for one or two minutes) through the decision-making steps helps you think more clearly. However, don't try to anticipate all eventualities. Use your time effectively. Once the decision is made, implement it. Implementation of the decision is critical for success.

Don't expect to be right all the time. Get over your fear of rejection or failure, your insecurities and anxieties. A good decision maker recognizes that poor decisions are a fact of life. Good decisions do not ensure good results. A good decision maker recognizes when a decision is less than optimal, is not overly defensive about it, and has enough self-confidence to admit it.

Through evaluation of past decisions, managers can learn from experience and thereby improve the decision-making skills associated with setting goals, identifying problems, considering alternatives, making decisions, and taking action.

Common Barriers to Decision-Making

Decision-making may require looking unpleasant truths or possibilities in the face. Wishful thinking has no place in decision-making. Hoping for 40-bushel yields is not productive when history indicates that no more than 30 bushels per acre have been harvested even in the best year. Positive thinking, on the other hand, can be an asset in implementing the decision if it doesn't distort reality. Positive thinking is appropriately used after the decision is made to help motivate the farm team to carry out a decision.

Other potential road blocks to decision-making include: procrastination; conflict avoidance; lack of priorities; hopelessness, depression or severe anxiety; unrealistic expectations; inappropriate dependencies on others; fear of making a bad choice; inability to see alternatives; impaired judgment; disorganization; and pride. Recognizing and then overcoming blockages is the first major step toward successful decision-making.

Overcoming Barriers

To overcome these roadblocks, you must establish solid, fully conscious knowledge of priorities. Identify the source of a problem and its implications for decision-making. Collect information from reliable sources and solicit advice from knowledgeable people.

Use information gathered to form realistic, objective expectations (do not let emotions rule). With other members of the management team, use knowledge gained to develop alternative solutions to the recognized problem and then choose a best solution. Try to be forward looking (either individually or as a management team) so that problems are anticipated rather than reacted to. Anticipate potential conflicts and map out ways of handling them.

Summary

Most of us tend to avoid difficult and unpleasant tasks. Using a systematic approach to decision making forces us to make difficult judgments and keeps us from running away from unpleasant ones. Systematic decision-making—defining the problem, examining the problem situation, considering alternatives, identifying the best alternative, implementing the decision, and evaluating the consequences—maximizes the potential for success. Identifying absolute and desirable criteria and ranking desirable criterion on a relative scale gives proper weight to an alternative that does a fair job on a major criterion as opposed to one that does an excellent job on a minor criterion. To make any decision, you need information. Decisions can only be as good as the information on which they are based.

Other Fact Sheets in the Series:

- AGEC-194 Taking Charge in Stressful Times
- AGEC-196 Finding a New Career
- AGEC-197 Coping with Restructuring or Loss of the Farm
- AGEC-198 Negotiation Strategies
- AGEC-208 Evaluating Options for Change

Figure 1. Decision-Making Worksheet

Problem Definition:

Purpose of Decision:

"Must Have" Criteria		Does the Alternative Meet Criteria?			
		A	B	C	D
<u>Achieve</u>					
<u>Preserve</u>					
<u>Avoid</u>					
"Would Like" Criteria	Criterion Rating	Rating of Alternatives			
<u>Achieve</u>					
<u>Preserve</u>					
<u>Avoid</u>					
Weighted Total Score					

Figure 2. Decision-Making Worksheet for Paul and Lori Gates

Problem Definition:

Want to retire from farming soon. Currently in farm partnership with daughter and son-in-law. Need to decide what to do with farm assets and how to provide retirement income for self and spouse.

Purpose of Decision:

Determine the best use of our financial resources for retirement.

"Must Have" Criteria		Does the Alternative Meet Criteria?*			
		A	B	C	D
<u>Achieve</u> Income of \$4,000 per month. Maintain savings safety net of \$20,000.		Yes Yes	Yes Yes	Yes Yes	Yes Yes
<u>Preserve</u> Good relations with children.		Yes	No	Yes	Yes
<u>Avoid</u> Major changes in lifestyle.		Yes	No	Yes	Yes
"Would Like" Criteria	Criterion Rating	Rating of Alternatives			
<u>Achieve</u> More time for community service.		4	7	8	10
More time for travel.		10	7	8	10
\$3,000 per year for travel expenses.		6	4	7	10
Less daily management responsibilities.		8	6	8	10
<u>Preserve</u> Retain control of some land to be passed on to children.		10	10	10	10
Some voice in farm decision-making.		7	10	8	2
<u>Avoid</u> High income tax burden in any one year.		7	7	5	10
High estate tax burden.		10	0	5	10
Weighted Total Score			389	459	564

*A: Lease farm assets to family; B: Lease farm assets to highest bidder; C: Sell assets to family and invest proceeds; D: Establish revocable "living" trust.

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The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

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- Extension programs are nonpolitical, objective, and research-based information.
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