

How Do I Decide What Is Right For Me?

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The title of this presentation asks two questions that are not easily answered:

- 1.) How do I decide? and
- 2.) What is right for me?

The first question is the easier one to address because it asks for a process as to how one can come to a decision. The latter one however is a little more difficult to answer because it involves a value judgement.

I know what is right for me given my own beliefs and values and I am comfortable with them. I also understand that other people have a set of beliefs that cause them to make decisions that are quite different from the ones I would make. They can do what is right for them and I'll do what is right for me.

Rather than getting into a discussion of right and wrong, this paper focuses on decision making and the process that one can follow when making a decision. There is a discussion of how values and beliefs are considered when making decisions but no judgements are made as to what are the right decisions for a person to make. That difficult task will be left to the reader.¹

Making Decisions

All of us make decisions on a daily basis. Many of these decisions are easy and require little thought or analysis because the consequences of making bad decisions are insignificant. For example, few of us spend much time deciding whether we should have cereal or toast when we are having breakfast. We do not need to sweat this decision because there is really no wrong decision since our life is not likely to change based on a choice to have toast versus cereal for breakfast.

Not all decisions are as inconsequential as choosing a breakfast. Other decisions such as marriage, choosing a career, or buying a farm, can shape our lives and make or break us. Because these decisions can have considerable long-term costs, we tend to agonize over them and spend a great deal of time getting information that will help us determine whether we should take the action.

Whether we are choosing a breakfast or determining whether we should buy a farm we go through a logical process that is comprised of an orderly series of steps. When the stakes of the decision are low we tend to move through the process quite quickly and casually. Alternatively, we spend a considerable amount of time working through the process if the consequences are make or break. This decision-making process consists of the following steps:

¹ The author would like to acknowledge that some of the ideas expressed in this paper were formed as the author reviewed Farm Management, a textbook written by Ronald D. Kay and William M. Edwards. Persons wanting more thoughts about management would be wise to read this excellent text.

- 1.) Specify an objective or goal.
- 2.) Identify and define the problem(s).
- 3.) Collect data and information.
- 4.) Analyze various options for taking action.
- 5.) Decide which action should be taken.
- 6.) Implement the decision
- 7.) Monitor and evaluate the results of the decision
- 8.) Accept the consequences of the decision.

By following these steps, managers can insure that they are making logical, information-based decisions.

Setting Goals and Objectives

Before anyone can make a decision about anything, one must first make a judgement about what one is trying to accomplish. In the case of farm businesses there are numerous things one might want to do. Earning profits, accumulating wealth, passing on a family business to descendants, reducing debts, and attaining financial security are just a few of the things that a farm business owner might want to accomplish as a result of farming.

Setting goals is a somewhat troubling task because it forces us to make value judgements and assign ourselves some responsibilities. Making value judgements is not difficult but it does make us declare to ourselves how we feel about money, family, friends, etc. Assigning ourselves responsibilities and deadlines for accomplishments is a bit troubling because it puts us in a position where we can possibly fail. We need to do this however because we will not accomplish anything otherwise.

Some people wrongly assume the primary goals of farm business are money related. It is true that farmers need to have some financial objectives as they operate their businesses, but it is wrong to assume that earning money should be the overriding goal of farmers. There are other goals that are as important as earning income. For example, security and freedom from risks are things that farmers desire. Also farmers desire prestige and status as well as the love of their families and interaction with friends and neighbors.

The majority of people will say that money is not all that important to them. This belief that the pursuit of money should not be the sole purpose of life infers there is a limit to the amount of money we should attempt to earn. Unfortunately we are not given any clear indication of what the acceptable limit is for pursuing money. Some people are of the mind that we should be satisfied with earning enough to put a roof over our heads, clothe ourselves, and feed ourselves. Other people see no problem with earning millions of dollars that can be used to purchase homes, cars, planes, and other luxury items in addition to basic needs for living. Each person has to decide for themselves what is their acceptable limit for pursuing money.

Security is another thing we desire and strive to achieve. We would all like to be shielded from financial hardships and the emotional stresses that go with worrying about how we are going to make mortgage payments or buy groceries. We cannot eliminate these worries but we manage and control them. For example, some people create financial security for themselves by saving major portions of their income so that financial resources will be available in the event that a family-member is unable to work or loses their job. Other people protect themselves from financial risks by making limited use of debt. This strategy of borrowing limited amounts of money minimizes the chance of bankruptcy, but it prevents people from buying capital assets like land, cows, and equipment that can be used to generate income.

Some agricultural activities are more risky than others. For example, dairying has generally been a stable income generating activity while cash grain farming has been a somewhat risky. In some

years grain farmers' incomes have soared, but then they have plummeted as prices fell and/or yields declined. Farmers are quite aware of these differences in the riskiness of various farm enterprises and they decide what types of farming activities they want to pursue depending how willing they are to assume risk. Farmers who put a premium on security will tend to avoid risky enterprises while those who have less concerns about security will engage in riskier farming enterprises.

All of us have a need to be loved and made to feel that we are liked and appreciated by others. In order to get these social needs satisfied we need to be around our family and friends. Some people need more social interaction than others. Thus it follows that some people will be more willing to take time from work to socialize with family or attend social events like community celebrations, civic group meetings, and other forms of entertainment that let us enjoy the company of others. The amount of time that we devote to social activities depends on how much we value the company of our family and friends.

Whether we want to admit it or not we all have a desire to accomplish some things that will be noticed and appreciated by our peers. In the farm community there are families that distinguish themselves by operating a farmstead for more than a century. In other cases farmers acquire status and prestige by increasing the size and/or scope of their farm businesses. Another characteristic prized by some farmers is family control of the farm business. There are numerous other factors that determine a farmer's status in the farm community.

Earning money, gaining security, interacting with humans, and achieving status are four goals that all farmers are attempting to achieve. Attaining these goals is challenging because they are not mutually exclusive. For example devoting oneself to earning large sums of money can force a farmer to take large risks and work long hours that come at the expense of time with family and friends. Conversely, a strong desire to spend lots of time with one's family may come at the expense of one earning high profits and achieving the status that goes with being the most prosperous farmer in the county.

Everyone must decide the importance of every goal that they set for themselves so they can then prioritize their various goals. A person has to do this in order to decide which goal will take precedence over another when they are at odds with one another. For example, a person has to decide whether earning money or avoiding risks is more important because it is typically impossible to achieve the goals simultaneously. Since avoiding risk comes at the expense of earnings. Thus a person has to choose which is most important: security or earnings. Some people opt for the latter and others the former. These decisions may be different but they are both correct given the preferences and goals of the people making them.

When setting priorities and goals a person has to remember that long run objectives must always take precedence over short-term goals. This has to occur or else it is possible that a person will not do what needs to be done in the short run in order to achieve something 30 or 40 years in the future. For example a person wanting to accumulate wealth so that they can live a life of leisure in retirement, most likely will have to work long hours, take some risks, and implement a rigid savings program in their youth in order to achieve their long-run dream. We can not turn back the clock if we fail to take short-run actions that allow us to accomplish our long-run goals. Therefore we should never lose sight of our long-run goals when we are plotting our short-run actions.

Identify and Define the Problem

Farm businesses and other businesses all have to cope with some central problems of economics:

- ±□ unlimited demands;
- ±□ limited resources; and

±□ multiple options for using limited resources to partially satisfy needs and wants.

The challenge for managers is figuring out how they best satisfy their demands in the face of resource constraints.

The problem that typically receives the most attention of managers is the resource constraint. Farm operators and producers are constantly trying to develop strategies that will let them gain access to the resources they need to engage in agricultural production activities. These resources include land, labor, and capital. Another resource constraint of farm managers is time. There are only 24 hours in a day so there is a limit to what a person can do. The problem of a manager is figuring out how they can make the best of their scarce time.

Locating the land, labor, and capital that are necessary for farming is only half the problem that farmers face. The other part of the problem is gaining access to these resources as cheaply as possible.

Minimizing expenditures for resources increases the likelihood a farm business will be profitable. Also it lets a farm manager gain access to the maximum amount of resources that can be purchased with the limited amount of cash and credit that are available to a farm manager at a given point of time. This short run financial constraint, also known as a budget constraint, typically dictates a farm's size and growth. Innovative managers are constantly looking for ways to overcome this financial constraint while other managers tend to let this budget constraint restrict their activities.

Land, labor, and capital have multiple uses in farming. For example farm land in the upper Midwest can be used to produce corn, soybeans, alfalfa, oats, and a host of other crops. Given all these potential uses for land we have a problem: deciding what is the best use of the farm land we have at our disposal.

Defining the best use of resources is a very difficult task, particularly in the case of dairy operations where we have interrelated cropping and dairy enterprises that are complementary some times and competing other times. Cropping enterprises can complement dairy enterprises when it comes to land because crop land can utilize manure produced as a part of dairy production activities. Conversely cropping and dairy enterprises can be in competition with one another for labor resources, particularly at various times within the growing season.

The problem facing a manager when analyzing options for allocating resources across multiple activities is determining the cost and benefits of moving resources around between enterprises. This decision is complex and it becomes increasingly more complex as the potential uses of resources grow. However, this analysis must be perfected if one is to determine what is best for a farm business.

Collect Data and Information

Once problems have been identified and clearly defined, the next step is to access the data, facts, judgements, and expert opinions that pertain to the problems. This information can be obtained from a number of sources including university extension, consultant services, periodicals, television, radio, and other farmers. Given all these potential sources of information, a good deal of time can be committed to gathering information. It is critical for a manager to limit the search for information that pertains to the specific problems of the manager. Otherwise there is a good chance a manager will waste precious time sifting through information that is not all that pertinent.

The informational needs of a farm business manager are quite diverse. Decision-makers need to know what resources and investments are necessary for putting together, say, a 300 cow dairy

enterprise. In addition to investment information, producers also need information about input/output relationships so that they can get some ideas of what inputs they need in order to produce certain levels of output. Price information, for both inputs and outputs, is also needed to assess the potential costs and returns of various production decisions that could be made by an agricultural producer.

Information about the risks of a particular option is also needed when making decisions. In agriculture we tend to assess risks in terms of variation. Thus we look at things like price variation and/or production variation to determine if the net returns from, say, dairy are more or less stable than the net returns from raising hogs. If we determine the returns from dairy are more stable than the returns from swine we have evidence that milking cows may be less risky than raising hogs.

In assessing risks, agriculture producers also make some judgements about the stability of the infrastructure that may support their farm businesses. If producers see that input suppliers, equipment dealers, milk plants, or other service providers are pulling out of region, it could be a sign producers may not have ready access to the services they need to conduct business. This is an institutional risk that producers must assess. Similarly agribusinesses have to determine whether investments in their business are warranted if agricultural producers are not giving any indication they are likely to stay in an area or region and engage in production .

Another risk that producers and agribusinesses have to consider is the regulatory environment established by local government units. The competitiveness of a farm business can be greatly diminished if, say, a county government requires it to implement a manure management program that is much more restrictive and costly than the norm for other farm businesses in the market place. Producers can get some feel of these regulatory risks by keeping track of the regulatory restrictions that are being discussed and debated in their communities and similar communities.

Many producers get useful cost and return data from statistical summaries that are compiled from the records of a large number of agricultural producers. These industry norms are useful in determining the productivity, cost efficiencies, and profitability a producer can be expected to achieve if they perform as well as the average firm in the marketplace. The industry data are useful but they are not perfect predictors of how an individual farm business is likely to perform. Thus one should be careful not to put too much stock in aggregate data when one is trying to forecast the likely performance of an individual firm.

Some of the best information that a producer can use to get an idea of how a farm business is likely to perform in the future comes from the historic records of the business. Past information about production levels, returns, costs, investments, etc are a record of a business' successes and failures that can be reviewed to see if one has a greater propensity to make good versus poor decisions. If the record shows that there is a history of good decisions we can comfortably assume good decisions will be made in the future. Conversely, we may be inclined to assume the worse if one has a track record that has more disappointments than successes.

Gathering information is an important step of the decision-making process but people should not get distracted as they are gathering information. The purpose of gathering information is to make a decision. People should remember this or else they can get so caught up with gathering information that they fail to go forward and make a decision. Thus we have to put a limit on the search for information so we can eventually come to a decision.

Analyze Various Options

Gathering information and data can give a person a general idea of what can happen if various decisions are made. It is not enough, however, to have a general idea of what can happen..

Therefore further analyses have to be performed in order to have more precise information about the potential outcomes and consequences of various decisions. These analysis must be somewhat detailed so that important differences between various options can be discovered. However the analyses do not have to be so detailed that they force a decision maker to consider even the inconsequential differences of the various options for action.

Typically an agricultural producer will analyze a potential decision by constructing a financial plan that details the returns, expenses, cash receipts, cash expenditures, profiles, assets, debts, and equity positions that are likely to be experienced if a particular action is taken. This detailed financial plan is typically constructed for a number of years in order to determine if a plan would be acceptable over time as well as in the short run. Long run analysis are generally needed anytime long term investments like animal housing, milking parlors and farm land are being considered.

It is costly to develop a detailed and comprehensive financial plan for each option that a person could choose. Therefore a person should probably develop one detailed plan and then supplement the plan with a set of alternative reports that show how profits, cash flows, and other key performance variables change as plans are modified. By adopting this approach, sometimes referred to as partial budgeting, a decision-maker can minimize the time and resources that it takes to perform needed analyses. More importantly this approach to analyzing options helps a decision-maker identify the changes that will occur as plans are modified. This will help the decision-maker understand the differences between the various options.

Make the Decision

Making the decision is something that should be relatively easy after a person has defined goals, identified the problems, gathered information, and then analyzed the options. All the hard work has been done. Now all that has to be done is choosing the action that will be taken.

In reality making the decision as to what is the best option to take is difficult because it commits us to an action. More importantly it makes us accountable because we go on record saying we have examined the evidence and concluded that one option is our best course of action. There is a possibility that things will not go as planned and our decision to take certain action could prove to be wrong.

Making the decision can be likened to the final stage of a count-down for a rocket launch. A great deal of time and effort is expended to get to the point where we are ready for a decision. Just before we make the decision, however, we go through a final check list to ensure that we have done all that we can to make the best decision possible. We review the goals we have specified for ourselves and also see if we have correctly identified the problems. In addition we can re-assure ourselves that we have gathered all the information needed to perform meaningful and accurate analysis of the options. These reviews ease our minds that we have done all that is possible to make a decision that results in our achieving our goals and objectives. Once we are satisfied that all systems are go we can continue the countdown and finally decide what action we are going to take.

Implement the Decision

Once a decision is made one has to take the actions that will bring about the desired outcomes. If these actions are not taken, nothing will happen. Thus the failure to take action is equivalent to not making a decision.

Commodity traders who talk about trading futures contracts stress the importance of implementing a decision. They talk about the need to pull the trigger when one has decided to

take a position in the market. These traders say some people let profit opportunities get away from them because they are unable to follow through and actually buy or sell futures contracts. This inability of some people to actually trade a contract and, in the words of the traders pull the trigger , is an excellent example of people not implementing a decision.

In the case of a dairy modernization or expansion, implementing the decision can trigger a number of actions on the part of a manager. For example once the decision has been made to proceed with the planned changes in a dairy operation the manager may need to:

- ± Negotiate and finalize contracts with builders;
- ± Line up credit resources;
- ± Obtain appropriate permits;
- ± Contract for cows;
- ± Line up food supplies; and
- ± Assemble a work force.

Failing to take these actions when must be taken to modernize and expand will prevent a manager from achieving the goals that are tied to a modernization or expansion. Thus the net result of not taking action is the same as not making a decision.

Monitor and Evaluate the Results

After a decision is implemented, new information will become available that will give a manager an idea of whether the decision in question is likely to result in a desired outcome. For example in negotiating the cost of constructing a free-stall barn or milking parlor, one might learn that construction costs are likely to run 10 to 15 percent higher than budgeted. This potential cost over-run means the profitability of the proposed project is not likely to be as high as originally planned. The options then are to kill the project, seek other bids, or accept the higher costs and proceed with the understanding that profits will not be as favorable as planned. The challenge now facing the manager is choosing between these new options that arose based on new information that is made available to the manager.

Manager also need to be aware of the impacts that price changes, shortfalls in milk production, changes in feed quality, and other factors can have on the profitability and cash flow of a farm business. Managers should continually monitor operating reports and financial records so that they can quickly determine when a farm business actual performance is deviating from the budget. This monitoring of a farm business performance lets a manager make short run adjustments that need to be made to ensure that a farm s profits are maximized. In some cases these adjustments are cutting costs when expenses are running ahead of budget. In other cases the adjustments may be expanding production in response to an increase in output prices or a decrease in key input prices.

One thing a manager must keep in mind when evaluating results is whether the outcome was or was not beyond their control. There are a number of things a manager can do to increase the chances of success. For example a manager can lock in prices of both outputs and inputs in the short run, insure against most casualties, and take other actions that will protect against numerous risks. It is impossible, however, to protect against every risk. The question managers need to ask is whether an unacceptable outcome, such as an operating loss, could have been prevented. If the answer is yes, they have fallen short as a manager. If however there was nothing they could have done to change the outcome, they have done as well as possible given the circumstances.

Accept the Consequences of the Decision

The final step of the decision-making process is accepting the consequences. In many cases this is not an unpleasant task because a good deal of decisions have been positive outcomes. The

majority of farm businesses earn profits, accumulate wealth, return debts, add family members to the business, or accomplish other satisfying outcomes. Unfortunately not every farm business succeeds however and a manager has to accept this possibility if they choose to pursue farming as a career and vocation.

Owning and managing a business is an avenue to success. The rewards flowing to a farm business owner can be considerable and people can accumulate a sizable fortune if they are successful in farming. The flip-side to this success story is the possibility that one will fail in farming and be forced to go through the humiliation of a farm sale and bankruptcy. This latter option is not pleasant but it is the risk one must be willing to assume in order to have the opportunity to establish a farm business that could be a person's ticket to financial success and security.

There are no guarantees that a person will succeed in farming. A person can work hard, adopt all the right management practices, and carefully analyze every decision and still have things go against them to the point they fail at farming. People have to understand that sometimes things do not pan out even though the conventional wisdom suggests that a planned activity, such as operating a farm business, should succeed.

Few people can accept the fact that sometimes things do not work out as hoped and planned. Most of us want to assign blame to someone or something when a failure occurs. It is understandable that we want to do this because it helps us come to grips with what has happened. Unfortunately this does not change the fact that we have fallen short of a goal or life long dream.

Dealing with disappointment and accepting bad luck is something that comes with farming, according to James Herriott, the Scottish veterinarian who has delighted us with numerous stories about life in rural England in the mid 1900's. A story of Herriott's that illustrates this point is one that describes the trials and tribulations of a young man named Frank Metcalfe.

Metcalfe was a young man who dreams of operating a small dairy farm where he could raise a family. He was not the son of a farmer; rather he was the son of a steelworker who labored in some steel mills. Frank's connection to farming was his grandfather, who had apparently given him the gene that made farming his life's desire.

As Herriott tells the story, Frank Metcalfe had little money and it was a struggle for him to buy the cows he needed to build his herd. This lack of money, or in Herriott's words "brass", forced Metcalfe to buy cows one by one as they came available at the market. This practice of building a herd with the throw-aways of others eventually caught up with Frank because Brucellosis spread through his herd and essentially wiped out entire year's calf-crop.

Having surveyed his situation Frank Metcalfe decided that he had to call it quits in farming and return to the steel mills that he was trying to escape. Herriott recalled that he extended his sympathy to Metcalfe and then Frank responded with a smile and no trace of self-pity and said, "Aye well. These things happen."

James Herriott's purpose in telling this story about Frank Metcalfe's misfortunes was to point out that Frank's reaction to his problem was the same as other farmers in the Dales of England. Herriott concluded from this that Frank had it in him to be a farmer even though bad luck prevented him from actually realizing his dream.

My point in sharing this story is that it shows how an individual can accept the fact that bad luck can result in a person failing to achieve a dream. The other thing I like about Herriott's story is that it helps us understand how farmers' minds work when it comes to bad luck and disappointments. Farming has always been a risky business and farmers have come to

understand this. This in my opinion is why the typical farmer can accept misfortunes and disappointments because they know, these things happen.

Conclusion

Deciding what to do and what is right for each of us is difficult but it is not an impossible task. The quality of the decisions we make is determined by how we go about making the decision. If we systematically move through the decision process laid out in this paper we increase our chances of making good decisions that are right for each of us. Hopefully this paper will give each of us some ideas of how we can go about making better decisions that are right for each of us depending on our individual needs and goals.