

Farm business decision-making – how can we help?

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1. Introduction

Australian farmers are currently challenged by a mixture of circumstances including drought, uncertainty of prices, rising input costs and the long term uncertainty of climate change. There are changing expectations of food producers to produce higher quality food in regular supply and to reduce the impact on the environment. The recent financial crisis has added a further pressure on many balance sheets. Clearly, this is a difficult time for many farming families.

The magnitude of the challenge is unprecedented for many. The low water allocations in irrigated districts couldn't be imagined ten years ago. In 1982 there was a severe drought, but everyone imagined it would rain the following year (and it did). The last three years, for some dryland grain growers, has been a succession of disappointments.

Many farming families are questioning their future in farming while others are making long term decisions to expand.

Some farming families are "paralysed" by the difficulty and magnitude of the decisions they are facing.

2. Family farms

This paper aims to present some ideas on how to assist farmers to overcome the confusion caused by the current difficult environment. This paper is particularly aimed at people working with farming families as an advisor, consultant or mentor.

This paper is based on social research carried out as part of the Grain & Graze project and experience in consulting to farmers from 20 years with RMCG. It is not aimed to provide a solution, but to suggest a model or process, which may provide a useful structure.

3. Complex decisions

The theories proposed by Snowden about simple, complicated and complex decisions¹, discussed below, are very useful in understanding how farmers make decisions.

Simple Decisions

The easiest decisions are simple. There are a few variables and there is a clear right or wrong answer. For example, deciding how much drench to give a 45kg wether may be considered a simple decision.

The farmer would refer to the label recommendation and drench accordingly. Throughout the day, many simple decisions are made with little conscious thought.

Complicated decisions

When a number of variables are involved, and the relationships between variables are clear and well documented, a decision can be considered complicated. Deciding on a pest control program in a wheat crop could be considered complicated. Significant expertise and experience is required, however information on relationships and responses is available which the expert can use to make a decision. Again, many complicated decisions are required on mixed farms. For example, a range of crops are grown and different soils and paddocks have different histories and weeds. These decisions are often made by the farmer with assistance from a trained and experienced agronomist.

Complex decisions

When a number of complicated decisions come together and interact and the variables and trade offs cannot be quantified or weighed against each other, the decisions may be considered complex. For example, deciding how many livestock to run on a farm, which also has a range of crops, is a complex decision. Although a theoretical optimum number of livestock could be calculated using a modelling approach, many variables would remain unaccounted for such as the effect on the environment, the need to manage labour, the impact on recreation time, the increased risks, and long-term price forecasts. The number of variables is very high and cannot be modelled.

When there are many complicated decisions combined with risk, uncertainty and social factors the decision is complex not merely complicated.

Drought can dramatically increase the complexity of decisions faced by farming families. Large and long-term questions about the families' future intersect with seemingly small and simple questions about production. The uncertainties that drought introduces make it difficult to know what can be relied on. 'Simple' parts of the decision become complicated and complicated parts of the decision become complex. The BCG research suggests that farmers are losing faith in "rules of thumb" they have previously relied on, as patterns such as "a good year always follows a bad year" seem to no longer hold. Climate change predictions meant that even the question of whether the drought will truly break is up in the air, as is the question of what problems are attributable to drought (and will therefore be relieved when (if) the drought breaks).

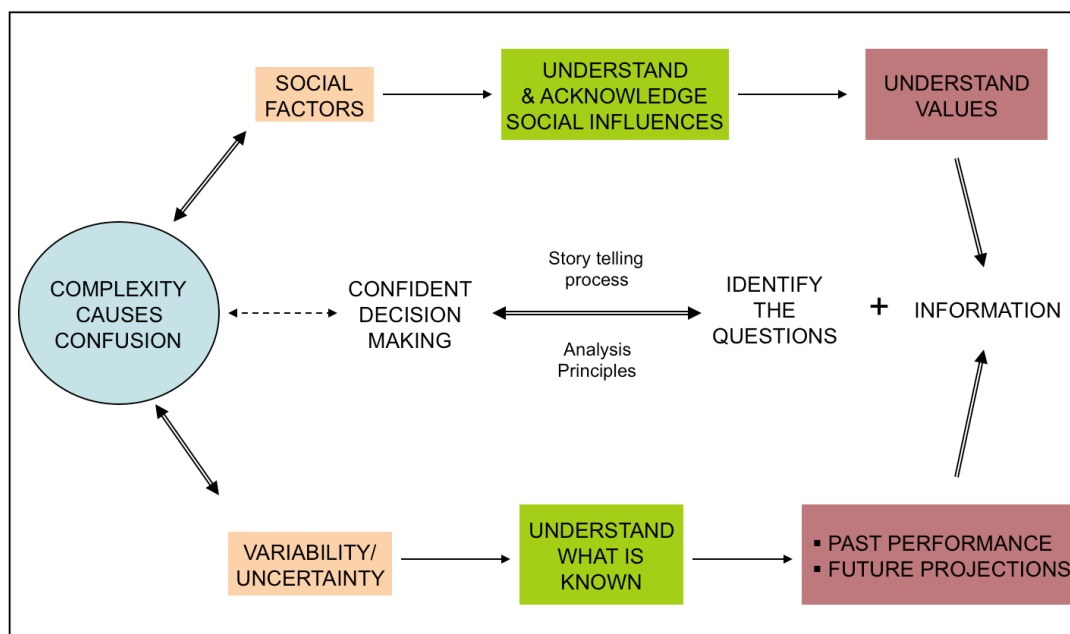
How can farmers make decisions in such a difficult, complex environment? The theory on decision-making suggests:

- We can improve decision making when the decisions are complex by "story telling". This is, of course, what farmers have been doing for many years. They like to learn by discussing options with others.
- A set of principles or boundaries are established and decisions are made within these boundaries in an ongoing way. For example, farmers will apply a principle such as "I don't want to put all my eggs in one basket" and then adjust the systems to suit.
- Past experience is very important in making complex decision making. This tends to make complex decision making conservative.

4. Assisting farming families

The figure below presents a process to move from confusion to confidence. This diagram aims to provide a structure, which may be helpful rather than a recipe. When working with farmers it is important to remain flexible and responsive depending on individual needs.

Moving from confusion to confidence



The steps in Diagram 1 are:

1. To move from confusion to confidence, we must first recognise confusion is caused by the social factors and the risk and uncertainty.
2. When working with farmers it is helpful to understand and acknowledge social factors and understand what is known about the business.
3. This can be done by:
 - analysing past performance;
 - preparing future projections;
 - analysing risks;
 - clarifying values; and
 - clarifying risk appetite.
4. Clarify what the decision is by expressing the decision as a question – for example, What price can I pay for water?
5. Use the information gathered in the third step above to answer the question. This can be done through story telling, applying principles, or analysis.

Advisors have a range of tools which can be used to process information, clarify goals and values or prepare projections. These tools aim to bring the client towards a more confident decision.