

Filtering Information for Decision making

Farmers and ranchers are bombarded with information. Filtering information is a process for determining which information is worth further consideration. It includes deciding which newspapers, magazines, bulletins, and "junk" mail to read, and what to throw away. Filtering information guides managers in using their time and resources to attend educational meetings, observe practices of farmers and ranchers, and participate in other information gathering activities.

Decisions must frequently be made with incomplete knowledge. Major sources of uncertainty include technological developments, weather, market conditions, and policy issues including Government programs and changes in fiscal and monetary policies. These factors and others interact, increasing risks. These uncertainties underscore the need for filtering information and improving decision making.

How a farm manager decides which information to use is a complex and individual process. There is no single or "best" way to filter information. However, there are certain factors that should be considered when making decisions and several tips for filtering information that can lead to improved decision-making.

Internal and External Decisions

The personal nature of decision making is vividly illustrated by what constitutes an important decision for a farm family. The classification of a decision as important or unimportant is influenced by a farm family's goals. Goals are, in turn, influenced by the life cycle of the farm business. Is the manager starting, expanding, consolidating, or transferring the business to another generation?

Some managers are innovators and early adopters of technology. While some are content with "just getting along," others are attempting to maximize their net income. The importance of information and decisions will vary considerably among these individuals.

Many decisions are external to the business. As a farm manager, you should realize you have no control over some of these decisions. Concentrate on the impact these decisions will have on your business, and explore the probable consequences of alternative responses to the decisions.

Analyze Your Decisions

Decisions can be classified in many ways. Emery N. Castle and Manning H. Becker, in their book *Farm Business Management*, classified decisions commonly faced by managers according to importance, frequency of occurrence, urgency of action, flexibility, and available alternatives.

What difference will it make if the decision is made one way or the other? There are \$10, \$10,000, and \$100,000 decisions. Managers should allocate their time in filtering information concerning these decisions in terms of the relative importance. For example, a decision on whether to produce one crop or another is relatively more important than deciding which recommended variety of a given crop to plant.

Some decisions are made only once or twice in a lifetime. Other decisions are made daily. Certain daily decisions, such as what and how much to feed livestock, can become routine. By developing a feeding program and continuing with it until changes are needed, the number of daily decisions can be reduced. This simplifies filtering information for decision making.

However, simplification does not reduce the importance of feeding decisions. The decision for a given day is not extremely important. However, the cumulative effect of the decision is extremely important. It could easily determine the level of success of the farming operation. Farmers and ranchers should evaluate options carefully before developing the overall feeding program and monitor the three or four key factors which could justify changing the program.

Some decisions are more flexible than others. Once some decisions have been made, it can be expensive to change them. For instance, if a farm family decides to start or expand an enterprise requiring relatively expensive specialized buildings, it can be costly to reverse the decision. Generally speaking, these structures add far less to property values than their cost. This does not necessarily mean that these structures should not be built. However, pay specific attention to filtering information and determining the true goals of the family. The value of the structure will normally need to be "farmed out" of the operation. If individuals decide to simply try out an enterprise requiring specialized structures, and then decide to discontinue their use within a short period of time, the family can lose more money on the reduced value of the structures than many families expect to accumulate over a lifetime. Always consider what it will cost to reverse a decision.

Some decisions have only two alternatives. Others may have many alternatives. To properly filter information, the number of alternatives to be considered for detailed analysis should be tentatively reduced to a manageable number. When filtering information for an excessive number of alternatives, it is possible to get confused and lose sight of the decision that must be made.

Filtering Information

Decisions are made on the basis of logic, custom, habit, hunch, or just on what the manager wants to do. Probabilities for financial success are greatly improved when logic is used for decision making. Excellent farm management planning tools are available to help the farm manager in applying logic to decision making. However, you must obtain and evaluate relevant information. This requires time and additional resources. Planning tools such as record analysis, budgeting, and whole farm planning provide a framework for obtaining the full value from information available to the manager. Likely outcomes from alternative decisions can be evaluated, and decisions made, in light of the family's goals and objectives.

Recognizing the need for information usually means the manager is concerned about a particular problem. Problem recognition is not automatic. For example, low net farm income is often identified as the problem when in reality it is a symptom of another problem on the farm or ranch.

A wealth of information is available within and outside an existing farm or ranch business. Financial and production records internal information are among the best sources of information within the business and can serve as a tool for filtering information from outside the business external information.

Farm Records

Farm records are documented evidence of experiences gained on the farm that generally contain more information than the manager realizes. Analyzing records over a number of years should help to identify problems in an existing business. The key is to spend time in reviewing, analyzing, and comparing actual performance with expected results. These documented experiences are also an excellent way to filter information. Attempting to explain differences between expected and documented results can pinpoint what information is needed to achieve given goals.

Unless a manager can identify ways the business will operate differently, a year's outcome likely will be close to the previous year's. One role of management is to obtain and use new information to improve the likelihood of achieving desired results.

Over time, there is a temptation to become optimistic in recalling production rates and efficiency measures. Compare actual sales with perceived results. Have an optimistic outlook on life, but realistic expectations in the planning process. A major difficulty occurs in filtering information concerning new enterprises. Overestimating production and underestimating costs for unfamiliar enterprises are common.

External Information

In using records as a basis for developing plans for coming years, adjustments must be made for expected market, policy, and technological developments. This external information is often incomplete. However, anticipating changes puts the manager in a better position to capitalize on these changes. Primary sources of external information include the Cooperative Extension Service, other USDA agencies, farm organizations, other farmers, mass media, and agribusiness firms. Keys to filtering information from these sources include deciding what is important, previous reliability of the sources in providing relevant and accurate information, and what is to be gained or lost.

Farmers and ranchers historically have relied heavily upon observing the performance of other farmers as a way of filtering information. Common sense says to be cautious about a practice if no other farmers are using the practice in the area. Innovators stand to gain from early adoption of a practice, but they also have an increased risk of undesirable results.

Managers should not jump to conclusions about what makes a particular business successful. The appearance of success could come from another source of income off the farm or ranch, as well as another enterprise or production method within the business.

Time Management

One sign of a good manager is the ability to decide what is important, and to get dependable information with a minimum of effort. Some managers spend an excessive amount of time simply obtaining information.

A manager needs to be informed, but exercise care to avoid the trap of being a professional meeting attendee and information seeker. Keep in mind your need for gathering information. Do not spend excessive time filtering information that is "nice to know." Focus on information useful in your current or prospective business. Characteristics of decisions to be made influence the amount of time and resources justified in gathering and analyzing information for a particular decision.

When To Decide

Knowing when to stop investigating and make the final decision is difficult. The risks incurred depend on characteristics of the decisions. Managers should compare the cost of collecting and filtering additional information against potential gains and losses. Acceptable levels of accuracy and the seriousness of an error will vary with individuals.

Individuals with a tendency to postpone decisions should realize that doing nothing is a decision to continue what they have been doing. This decision should be made consciously instead of just letting it happen. If information was properly filtered and analyzed, better alternatives could be available. Not making a decision may be worse than making some poor decisions. However, making a conscious decision to not make a change or to postpone a decision can be the best decision.

Tips for Filtering Information

Here are some suggestions to help in filtering information and making better decisions:

1. Take time to think. Maintain a curiosity to learn. But do not waste time.
2. Identify major problems to be solved, opportunities for improvement, and the information needed for decision making.
3. Sort out big decisions from little decisions. Concentrate your time on important decisions. This reduces the number of daily decisions.
4. Discuss major expenditures with the record keeper and other family members. Sometimes a mistake is made because one individual keeps the records and another person makes a major purchase without the benefit of record information. Realize the importance of what has gone on in the operation. Furthermore, project the consequences of a particular decision on the farm business. Purchase with a plan instead of on impulse.
5. Discuss major decisions with another knowledgeable individual, other than family members, who can be more neutral. Do not rely solely on your own judgment. Talking out a decision encourages the organization of pertinent information.

6. Evaluate alternative outcomes. Estimate what will happen to the operation and the family if the decision does not work, as well as if it does work. Combine an optimistic outlook on life with realistic expectations from decisions. Leave some slack for adverse conditions.

7. Ask if the decision makes common sense. Ask questions, such as how many families can the farming operation realistically support?

8. Individuals starting new farms or enterprises should slow down and not get caught up in the excitement of buying and building. Before committing substantial resources to an unfamiliar endeavor, seriously consider working in an established operation for a minimum of 2 - 4 weeks. Sometimes the desire goes away and individuals can avoid substantial losses. It is generally too costly to simply try something. Commitment is needed for success.

9. Use farm planning tools such as record analysis, budgets, and whole farm planning to organize your thoughts and filter information needed for improved decision making.

Author

Clark D. Garland, Professor of Agricultural Economics, University of Tennessee, Agricultural Extension Service, Knoxville, TN.

The Yearbook of Agriculture 1989

Farm Management

United States Department of Agriculture