



R I G H T R I S K N E W S

**EVALUATING RISK MANAGEMENT STRATEGIES:
Making decisions looking in the rear-view mirror**

How Much Risk is Right for You?

Farm and ranch decision makers 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. The following draws from the work of Hammond, et al. (1999) and Spetzler et al. (2016) to present the seven characteristics of good decisions (Seven Characteristics of a Good Decision. Cornhusker Economics. Parsons. 2016).

An appropriate decision frame

To make a good decision, decision makers need more than just a list of choices. An appropriate decision frame captures the context in which the decision is being made. This includes both the internal environment and the external environment. Above all, it also includes the objective(s) the decision maker is trying to accomplish by making the decision. With an appropriate decision frame, the list of choices can be as large as needed to find the best alternative.

Clear values to adhere to and objectives to accomplish

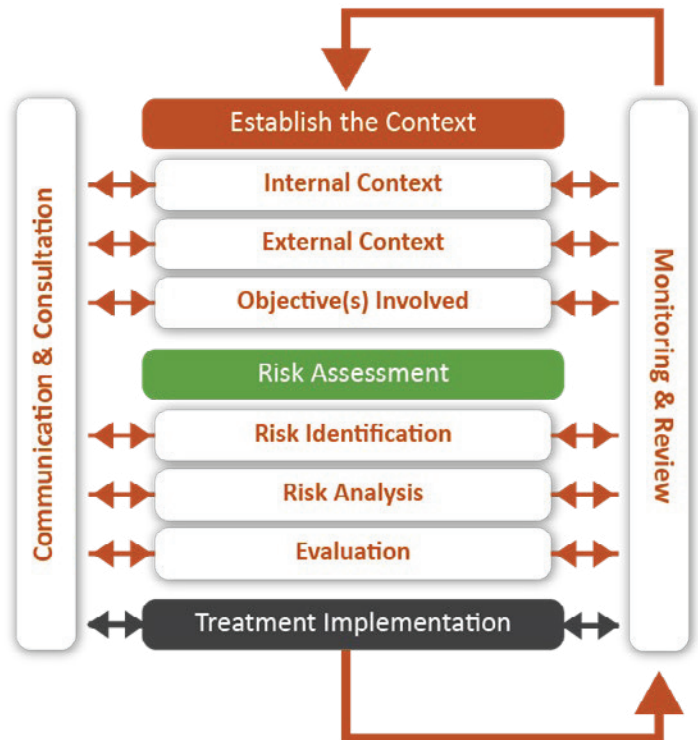
Identifying the objective(s) to accomplish is part of properly framing a decision. These objectives need to be clear and align with the decision maker's values. Why is this so important? Because the objectives form the decision criteria, help

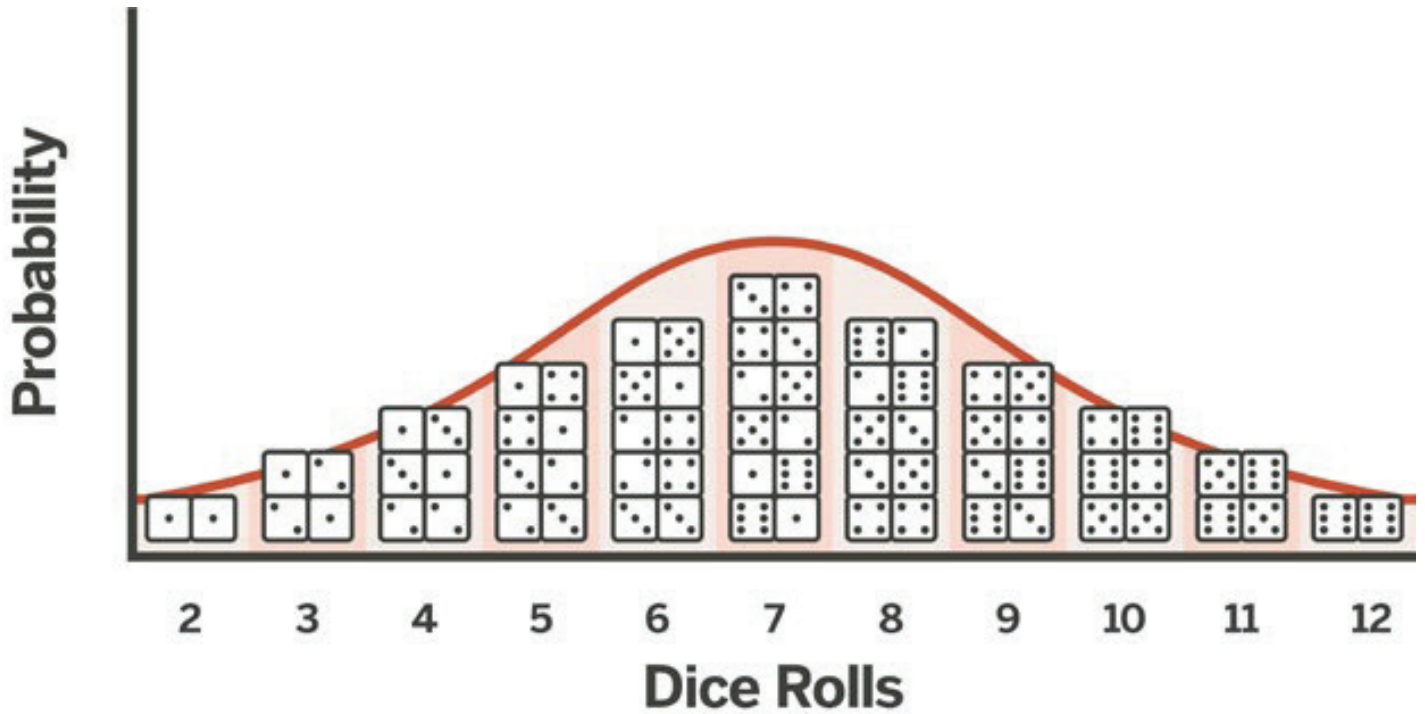
determine what information to seek, help explain the decision choice to others, and help determine how important the decision is to the people involved, as well as how much time and effort should be spent in making it. Looking back on a decision, the decision maker should clearly see how the choice made helped fulfill key objectives and adhere to the values better than the other alternatives available at the time.



Creative alternatives to choose from

Two basic principles should be kept in mind when generating alternative choices: First, the choice selected can never be better than the best of the alternatives available to choose from. Second, the decision maker can never





choose an alternative not considered. Looking back on a decision, the decision maker wants to be able to say that he/she generated an innovative list of alternatives, thought outside the box, and iterated some original alternatives into better alternatives. It is much better to have too many bad alternatives on the list than not enough good ones. At the end of the day, it is much easier to make a good decision when trying to decide between several good choices.

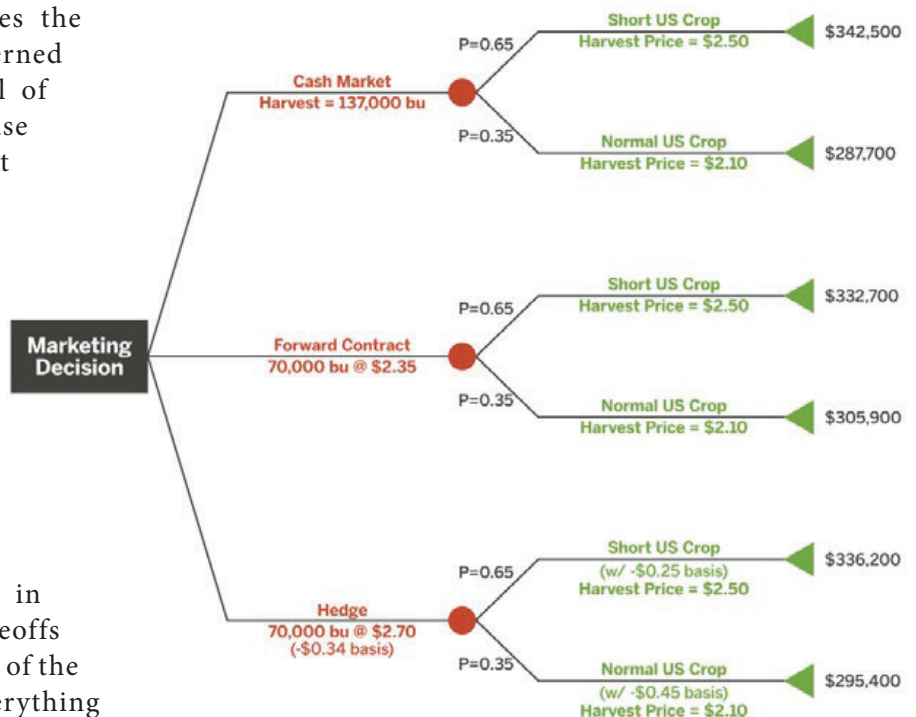
Good information

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

It is also important to remember that there are no future facts. At best, factual information only describes the present and the past. Decisions are concerned about the future and the future is full of uncertainties. The manager should 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 looking back on a decision, a manager wants to be able to say that all the relevant facts available at the time and the best information about what the future could hold were incorporated when making the choice.

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 people 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 a crop within 10 days than it is to save \$2,000 in interest, then that should be reflected in the reasoning used 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 describing connections between alternative choices under consideration and the impact they have on downstream decisions.

Finally, these tradeoffs and reasoning take place in a world that is filled with uncertainty. This must also be reflected in the process. Appropriate scales should be used and the tradeoffs should 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 a decision is considered, the decision maker will want to say that sound reasoning was used in evaluating how well each alternative choice would help accomplish the objectives for making the decision.



Choice alignment with values and objectives

Good decisions are choices that are well-aligned with the decision maker's values and objectives. These important factors may be forgotten when assessing alternatives or making a final selection. Often, it is too easy to focus on a single objective that begins to dominate the selection process. A quick reflection on choice alignment with values and objectives can help prevent the decision from mirroring an imbalance among the priorities.

Committed implementation

Finally, a good decision must be accompanied by a commitment to implement it. When the decision maker evaluates the decision, she/he should carefully consider on how committed they are to fully implement the choice. The decision maker will want to be able to say that the choice was implemented completely and that 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 the quality of a decision should not be judged solely on the results. Results are obviously important, but habits that produce these seven characteristics of good choices are even more important because they will more consistently produce good results.

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