

MAKING DISCIPLINED DECISIONS

by Allan Gray

Today's fast-paced, competitive food and agribusiness climate demands quick decision-making. Some of those decisions are big and potentially game-changing, meaning they need to be made with discipline.

Examples include building new facilities, purchasing other companies, entering joint ventures, or investing in research and development projects.

The market doesn't wait for long decision-making processes, so even these big decisions often require us to be relatively quick and decisive to avoid being left behind.

Most of us have, at some point, made a decision and then looked up to say, "How did we come to this conclusion?" Those who haven't are either very lucky, or their companies haven't taken many chances and have been satisfied with slow or no growth.

But there's a difference between taking chances and making rash decisions.

CRITICAL ASSUMPTIONS

Take for example a company that has just broken ground on a new greenfield project — a project that lacks any constraints imposed by prior work. The investment is a significant one for the company with potential for big payoff, but substantial risk, as well.

Company leadership made the decision to move forward based on a net present value (NPV) analysis that showed the project to be profitable. But in digging a little deeper, it became clear that leadership wasn't sure what the most critical assumptions in the analysis were.

When it came to the sensitivity of the NPV, analysts had done best-case, worst-case, and most-likely case scenarios. But when trying to determine what the key assumptions were behind the different cases, company leaders could remember few details.

Answers varied widely when

company leaders talked about what variable the manager of the new project would have to prioritize as the most important factor for the project to be successful. Some thought it would be cost control, some said product margins, others market share. In each case, they weren't sure what the target level

variables in the business to improve the probability that the decision will be as good as our initial analysis had assumed it would be.

Dr. Michael Boehlje, distinguished professor of agricultural economics at Purdue recently penned an article titled "Capturing value from a bad

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needed to be to achieve the NPV the analyst had computed.

At this point, the group realized they had no idea how they came to the conclusion to break ground on the project.

This scenario is more common than most of us would like to admit. The pressure to perform, grow and manage day-to-day activities makes it difficult for us to be disciplined in our decision making.

DECISION DISCIPLINE

It is precisely this discipline that allows us to capture the upside of our growth opportunities and minimize the risk we take in the process. Discipline in our decision making means that we take the time, even when time is short, to determine the true objective of the decision we are facing, to identify multiple alternative approaches to achieving the objectives, and to carefully analyze each of those alternatives.

One of the most important parts of careful analysis is to have the discipline to clearly document all of the assumptions we make in our analysis. This way, when we choose an alternative to move forward, we will know the critical variables (assumptions) that make this a good decision.

We can use the documented assumptions as benchmarks or targets to help our managers and employees understand how to prioritize key

decision," which covers both discipline in decision making and how an organization can still glean value from a poor choice. It's available at <http://agribusiness.purdue.edu/blog/capturing-value-from-a-bad-decision>.

STRATEGIC DECISION MAKING

The **Purdue University Center for Food and Agricultural Business** can help you become a more disciplined and strategic decision maker at our Strategic Decision Making program, June 28-30 in West Lafayette, IN. Our renowned faculty will challenge you to reframe your perception of corporate strategy and offer one-on-one attention regarding a big decision you're considering in your business.

Learn more and register at <http://agribusiness.purdue.edu/seminars-and-events/strategic-decision-making>. **AM**

Allan Gray is the director of Purdue's Center for Food and Agricultural Business, a professor of agricultural economics, and the Land O'Lakes Chair for Food and Agribusiness. He can be reached at gray@purdue.edu.

