

Strategic Decision Making In Uncertain Times

by Kevin Ochsner

If there is one word that has made its way into more news articles, talk shows, conference presentations and campaign speeches over the past several months, it is the word *uncertainty*. Whether you are an agricultural machinery company making long-term manufacturing plans, an animal health supplier trying to determine which global markets offer the most long-term potential, or a commercial cow-calf producer trying to decide when and how to market calves, the level of uncertainty about the future has made decision making increasingly difficult.

Regardless of how predictable or unpredictable, stable or volatile the future might seem, business leaders cannot simply stop making decisions until calmer winds prevail. Sure, we can choose to delay making a decision, but that is a decision in itself, with its own set of consequences. Business leaders recognize the timing and quality of their decisions affect both their short-term performance and long-term industry position.

Perhaps leadership experts Noel Tichy and Warren Bennis said it best in their book *Judgment*: “The single most important thing leaders do is make good judgment calls. In the face of ambiguity, uncertainty and conflicting demands—often under great time pressure—leaders must make decisions and take effective actions to assure the survival and success of their organization.”

They go on to say, “Judgment is the core, the nucleus of leadership. With good judgment, little else matters. Without it, nothing else matters.”

So how do business owners and industry leaders exercise good judgment? As the saying goes, the best teacher for making

good decisions is making many bad ones! If so, many of us might feel like we are well equipped to be experts in the field. Clearly, nobody is perfect when it comes to decision making, but we can employ some time-tested principles for improving our odds.

As an agribusiness consultant for the past 17 years, I have had many opportunities to interact with some capable business and industry leaders and have had the privilege of leading organizations through strategic decision-making processes. Decision making is a complex subject, and it is as much art as science. There are several principles that can be helpful in making sound decisions, however—even in times of uncertainty.

Frame Your Decision

The first step in any decision-making process is framing the decision. Too many people rush off in search of solutions before carefully framing the strategic issue. Before investing time educating yourself, gathering outside perspectives and framing alternatives, you want to ensure you are answering the right question.

Soon after he became CEO of General Electric (GE), Jack Welch met with management guru Peter Drucker. As they discussed GE’s various businesses, Drucker asked, “If you weren’t already in this business today, would you go into it?” That question had a significant effect on Welch and caused him to implement his famous “No. 1, No. 2, fix, close or sell” strategy.

Rather than immediately focusing on how to fix underperforming business units, Welch asked a more fundamental question: In which businesses should GE

be involved? He concluded GE would succeed long-term by having businesses that were No. 1 or No. 2 in their industries. He would have to close or sell those that could not achieve that stature.

Ultimately, that framework led Welch to selling the GE housewares unit in 1984. The press criticized him for selling off one of GE's most visible businesses, but it ultimately proved to be a great decision as the division came under enormous pressure from Asian knockoffs.

Framing decisions correctly is a critical step in making sound strategic decisions. Too often, we frame our decision with too much of a short-term focus, or we frame it so narrowly that it limits our exploration of strategic alternatives. Asking "Should we grow our cow herd?" is different than "How can we generate more profitability from our land and labor resources?" The first question drives you to focus on the feasibility of changing an existing enterprise's scope. The second causes you to consider broader alternatives for utilizing your strategic resources.

That might lead you to consider complementing your cow-calf business with a stocker enterprise rather than growing your cow herd. Or it might prompt you to invest your time building a hunting enterprise rather than managing more cows. Investing time to frame and clearly articulate your key strategic decisions is time well spent!

Explore Multiple Scenarios

Many traditional planning approaches involve establishing a set of assumptions then planning around them. That approach might be appropriate in predictable times. In times of significant uncertainty, however, it can lead you to planning around a set of false assumptions. Many of our clients use scenario planning to deal with uncertainty and change. In scenario planning, the goal is not to agree on a fixed set of assumptions but to create then consider several equally plausible scenarios.

continued from Page 89

A vital component of scenario planning is defining the driving forces that will affect your business and your industry in the future. Driving forces for our industry might include everything from global population growth to demand for ethanol to agricultural trade policy. Selecting the drivers of change in your business requires that you spend time gathering information, studying key trends, and talking with people (both inside and outside the industry) who have insight into the issues and trends that could affect your business.

Once you have developed a list of driving forces, it is important to categorize them into “predetermined forces” and “uncertainties.” Predetermined forces can be predictable. (Global population growth is something you can predict with a level of certainty.) Uncertainties are unpredictable, but their outcomes could influence your future significantly. (Grain prices are difficult to predict, but they likely will have a substantial effect on the beef industry.)

After you have identified the key uncertainties, decide which of them could have the most effect on your business. That process typically results in narrowing the list to several critical uncertainties.

For example, cow-calf producers might consider corn prices and export demand—two critical uncertainties that could affect their businesses substantially. Corn prices clearly affect everything from feeder-calf values to forage price and availability. Export demand for beef has been on the upswing; however, the global economy, exchange rates and unpredictable disease outbreaks have made global meat exports anything but predictable. Clearly, the outcome of those two uncertainties could create different scenarios for everyone in the beef industry.

Once we identify the critical uncertainties, we imagine four different but plausible scenarios as in the illustration. By considering each

quadrant, you can begin imagining several different “worlds” that could transpire. In his book *The Art of the Long View*, Peter Schwartz suggests that “scenario planning is nothing more than a tool for ordering one’s perceptions about alternative future environments in which one’s decisions may play out.”

Think about it. A world where we have long-term high corn prices and low demand for U.S. beef exports is different from a scenario involving low corn prices and high demand for U.S. beef. The outcome of those uncertainties could drive everything from how and where the U.S. beef industry feeds cattle to what incentives exist for traits like feed efficiency, quality grade and cutability. Clearly, some breeding and business-management decisions would be equally appropriate for all four scenarios, while other decisions would prove beneficial in one scenario and detrimental in others.

The bottom line is that, rather than basing our plans around a set of faulty assumptions, we need to study the driving forces that could affect our business the most and consider multiple potential scenarios before making strategic decisions. Our goal is not simply to predict the future or to build a plan for the scenario we prefer but to position our businesses and organizations for success regardless of how the future unfolds.

Course Corrections

We are living in turbulent, uncertain times. Change and volatility always bring about opportunity, however. While it is easier to plan during times of harmony and stability, uncertainty can create the necessary motivation to take our enterprises off “auto pilot,” evaluate the market environment and make the “course corrections” that will enable us to arrive safely at our desired destination.

Several years ago, *Fortune* magazine devoted an entire issue to decision making. One of the articles addressed the issue of uncertainty in the following way.

“Most of us will do just about anything to avoid uncertainty. We might defer

decisions endlessly (thus surrendering what power we do have to control our own destinies) or, like ripping off a Band-Aid, pull the trigger all at once. Making a call takes guts. It means inviting uncertainty into your home, offering it a drink and asking it to stay for dinner. Uncertainty is a creepy houseguest, but not your captor.” **LW**

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Scenario Matrix

