Enterprising Rural Families™

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Chat This Month

Reminder: The chat this month is scheduled for North America: Pacific Time- 6 p.m., Mountain Time- 7 p.m.; Queensland, Australia: Eastern Time-12 Noon. The topic is "*The Impact of Personality on Risk Management Decisions.*"

Suggested Progress by Group: In order to stay current, by the end of this month you should be completed to:

Antarctic – End of Module 7

Arctic – 2nd Week of "Project" in Module 6

Atlantic – End of Module 5

Baltic – 2nd Week of Module 4

Bering – End of Module 2

Black – End of Module 1

Caribbean -

Coral –

Indian –

Mediterranean -

Pacific -

Red -

Contact e-mail for further course information:

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THE IMPACT OF PERSONALITY ON RISK MANAGEMENT DECISIONS

Is maximizing profits the most important goal in the family business? Do owners or managers approach risk management the same? How do personality characteristics affect decision-making?

Certainly economic decision making is key to operating a family business, but it is the individual decision-maker who often guides the business and is responsible for whether the operation succeeds. How the decision-maker reacts in a given situation, and how he/she thinks is at the core of economic decision-making (3). Other factors such as goals and management style, attitude and personality impact one's approach to risk management decisions. (More detailed material on personality and risk management is presented in modules 2 & 3 of the ***Enterprising Rural Families: Making it Work***™ online course).

Goals and Management Style

A principal assumption behind much family business research and education is that the owner's primary goal is to maximize the difference between costs and returns—in essence, maximize profits. But studies have shown that profits may not always be the prime goal for the operation. For example, a study of 29 farm family business owners asked them to assign value to a list of benefits they received from farming. They reported that "doing something worthwhile," and "being my own boss" was viewed as more important than "producing a good income" (4).

Management goals are also important to consider in an assessment of family business management. Since family businesses combine business and way of life goals in complex and personal ways, understanding management styles helps explain different approaches to farm management. To understand the goals of farm family business owners for example, a study of New Zealand farmers asked them to rank farm management goal statements. This produced a description of three distinctive management styles—dedicated producer, flexible strategist, and resource steward.

Dedicated Producer—has a strong desire to achieve the best quality product. This producer thrives on farm work and wants to be the best producer possible. The dedicated producer realizes that financial sacrifices are necessary but the possibility of financial gain is tempered by the fear of losing the ranch or farm.

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he or she operates. Working close to nature is rewarding and the preferred lifestyle. Money is a means to an end—having a good quality of life. The resource steward accepts moderate risk.

Although producers desire to achieve all valued goals, when this is not possible the management style of the producer will influence the importance of the goal and decision making related to that goal. For example, dedicated producers value producing a high-quality product and use financial and business management practices to achieve production goals and success. This is not to say that the flexible strategist and resource steward do not value high quality and success. But the definition of success may be different. For the flexible strategist, success is marketing the product well. For the resource steward, success is a quality lifestyle and preservation of natural resources (1).

Attitude Toward Business Debt

Some business owners can maintain an objective view in the face of debt; but for others, debt (especially when excessive) becomes a very personal experience. A focus group study investigated the relationship between debt and viability of Australian agriculture producers and businesses. The researchers determined that debt impacts farm families in a personal manner, "business consultants see debt conditions as a business issue, while families see it as a personal issue" (6). Excessive debt placed a great deal of mental strain on individual farmers; contributed to family conflict, and had a negative impact on entire communities.

In addition to a personal view of debt, the attitude of the business family will impact decisions related to debt. McCubbin and McCubbin (5) developed a family adaptation model that describes the family's capacity to meet obstacles. A factor in the model is the family's definition of, or attitude toward a problem. If the family views the situation as a challenge or opportunity for growth instead of a threat or crisis, they are more likely to cope and adapt. A business family, therefore, that perceives debt as necessary for sustainability is more likely to take a positive view of debt management.

Business-Owning Families' Risk Tolerance

An examination of risk tolerance of family business owners using data from the 1995 Survey of Consumer Finances revealed the following: family business owners are more willing to take financial risks and have a larger share of financial assets in risky assets compared to people who do not own a family business; among family business owners, age, race, net worth, and number of employees affect both risk-taking attitudes and behaviors; the number of years owning the business, gross sales, having started the business, and sole proprietorship affect risk-taking behaviors, while education affects risk-taking attitudes (7).

Psychological characteristics of operators influence business decisions and the ability of the business to respond effectively to changes in the operating environment. There are various models that describe these psychological characteristics and predict human behavior. The Myers-Briggs typology (MBTI) is one of the most widely used models. The essence of the theoretical model is that we all have certain fundamental options regarding our functioning. These are:

Whether we prefer the outer world of things and people (**E**xtrovert) or the inner world of thoughts and ideas (**I**ntrovert);

Whether we typically perceive our environment in a literal, factual way (**S**ensing) or typically using intuition, creativity and imagination (I**N**tuitive);

Whether we reach our decisions mostly in a logical, rational, objective way (**T**hinker) or in a value based, subjective way (**F**eeler);

Whether we take action in an orderly and planned manner with deadlines and schedules (**J**udging) or in a spontaneous, changing and adaptable manner with options and possibilities (**P**erceiving).

The MBTI has been used to enhance the understanding of business owner personality and decision making. In one study of 500 Nebraska farm couples, the largest percentage of farm men (25.3%) had an ISTJ personality type while the largest percentage of farm women (17.8%) were ISFJ personality type. An additional 20.5% of the farm men were categorized as ESTJ and 14.2% of the farm women were ISTJ. Based on psychological type theory, it may be predicted that ISTJ/ISFJ producer couples' strength lies in being hard working, realistic, conservative, and traditionally oriented. Their weaknesses lie in their resistance to change, dislike of risk, pessimism, and strong ties to tradition (2).

The four basic personality types

Today's business climate is undergoing tremendous change in production, global competition, business structure, technology, and risk management strategies. These changing events and conditions present a real challenge to ISTJ and ISFJ family business operators because their most effective way of operating comes from their careful accumulation of solid experience. Situations in which they have no experience (as in new or non-traditional risk management strategies) can seem confusing and out of control to them. They need time and the opportunity to use their carefully developed expertise to understand the changes.

Conclusion

This article was not intended to assume that economic decision-making and profits are not important in family businesses. Rather, it points out the complexity of owner/manager decision making. People are different in how they approach and analyze situations, as well as how they act on information.
(For more information on this topic and the management of rural family enterprises, check the Enterprising Rural Families website at http://eRuralFamilies.org.)

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