



A MANAGER'S RIGHT NOT TO KNOW

The age of the microcomputer has arrived. The impact of these electronic marvels on the agribusiness industry will be difficult to assess, but managers are rapidly beginning to experience a new era where the near-instantaneous creation of information is possible. All sectors of our agribusiness industry have, from time to time, experienced the advent of new technology, and most have adapted well to the resultant changes. Historically, these technological innovations have impacted only selected functions of the business, for example, packaging techniques, storage technology, or product-handling methodologies. Microcomputers are, however, finding a much broader application, as they possess the ability to monitor, enumerate, and create information across all functions performed by a business enterprise. This ability to rapidly assemble and communicate information to management is the microcomputer's forte. Some experts have even gone so far as to suggest that information, rather than products and services, will become the prime basis for all future U.S. economic activity. I'm doubtful that I will live long enough to see this happen, as our agribusiness industry retains its focus on products and services. But one cannot dispute the fact that microcomputers and the electronic age will have a large and beneficial impact on agribusiness. Even as I acknowledge the tremendous value of this new technology, I profess some concerns about its impact on the critical role of management.

Assembling information is but the initial step in the decision-making process. Computers supplant and/or support this step quite fully.

The process of evaluating this information, however, is both more complex and demanding. In a rather rudimentary fashion, computer programs can perform some basic acts of evaluation. Resulting judgments are, however, completely objective in nature. In this regard, the human factor (the ability to make subjective judgments) has not yet been electronically duplicated. Similarly, the decision-making process is not yet complete until the decision is implemented. Here again, the science of electronics is reduced to little more than an on-off switch for the activation of mechanical procedures. Computers have not yet been designed with the ability to create an environment wherein employees cordially receive a directive and then enthusiastically pursue the desired goal.

These observations notwithstanding, my major concerns revolve around a manager's ability to effectively cope with the massive volume of information that the microcomputer is now capable of storing and out-putting in an instantaneous manner.

Agribusiness managers long ago bemoaned their lack of information. Decisions were being made on the basis of intuition rather than hard data. Even when hard data were sought, they were expensive and labor intensive to gather and assemble in the manner needed. This has all changed with the advent of the microcomputer. The act of physically storing information no longer requires the use of dark basements or musty warehouses. Storage space has now been minimized beyond the point of rational human understanding. Storing and/or retrieving information no longer requires a platoon of clerks, bookkeepers, and accountants. Even the manipulation and/or formatting of data

have been reduced to a pleasantly simple task. Information, once so lacking, is now approaching the point of surplus. Thanks to the microcomputer, information on almost every aspect of your agribusiness firm can be created, stored, manipulated, and retrieved with almost instant recall. The agribusiness manager now confronts an entirely new dilemma: How can he/she focus on that information required for good decision-making, while avoiding all that which is superfluous? Indeed, I would argue that a good manager must now enforce his/her "right not to know" much of what is now available.

A Manager's Need To Be Protected

The information generating capabilities of modern electronic data processing equipment are essentially limited only by cost and volume considerations. Once equipment acquisition costs have been incurred "up front", there is a natural desire to use those capabilities to the fullest extent. It is this tendency that must be avoided if your newly-acquired microcomputer is to produce management intelligence rather than gross information. Management intelligence contributes towards management action, while gross information produces only an audit trail of business functions.

Accept for a moment the notion that a manager has a very basic right not to know. Management has a need to be protected from the mass of operating detail which most electronic systems are now capable of producing. "Trivial Pursuit" is a game that has much public appeal, but it is a form of recreation most managers can ill-afford to pursue while at their desks. Management must be free of burdensome information which does not inform; it must not be exposed to endless details on which no management action can be taken; and it must be protected from masses of trivial data which fail to measure performance in the firm's key areas of operation. In freeing themselves of such nonessential data, managers display their willingness to fulfill the

role of managing, a process otherwise subordinated to the more routine task of administration. Administrators flourish in an environment of informational excesses. They become the bureaucrats of the business world, as the power of their positions is judged proportionate to the volume of information they solicit and inventory. A not inconsiderable few even appear to find a sense of security in surrounding themselves with inconsequential detail. These administrators rarely become successful managers as they fail to rise above this temptation to create more information rather than use more effectively that which already exists.

A Selective Process

A good agribusiness manager must have the ability to select from an ever-growing volume of information, that which is actually needed to fulfill the functional responsibilities of management. The process is not unlike that performed by a combine as it harvests a stand of ripened grain. As the density of planting increases or as the proportionate volume of straw becomes greater, the groundspeed of the combine must be decreased. Yet despite the increased time required to complete the harvest, higher yields and profits result. Management time and skill are required to separate the wheat from the chaff, but higher yields and profits will result from the added efforts expended.

The information selection process for top management must be rigorous to the point of oversimplification; it must select information aimed only at the basic objectives of the business and designed only to provide a measure of how well such objectives are being met. The selection process should recognize the value of management time and produce only that information worthy of such an added expenditure. A simple listing of that information actually needed by top management may be surprisingly short. Recently I asked management and the board of directors of an agricultural lending institution to describe, in simple terms, the

key performance areas of their business. Next I asked each person to outline a sequence of quantitative measures that best measured performance in the areas listed. Once combined, this listing and the appropriate measures, imposed on the monthly financial results of the business, were used to supplant the routine preparation and distribution of three exhaustive management reports. As a result of this simple exercise, information was transformed into intelligence that could be employed in a much more cost- and time-effective manner.

Intelligence Identified

Because the example above was specific to a particular type of agribusiness firm, we are forced to expand our discussion into more general terms. How can one selectively separate intelligence from information? Perhaps the following measures can be more broadly applied to this selection process.

Select from the vast volume of information **those measures of current actual versus predicted results of the business.** Because these measures are traditionally linked to profit and loss statements and balance sheets, attention should first be directed to financial measurements. Traditional measures such as ROTC (return on invested capital) should always be compared with the budgeted entry, by month and year-to-date. Such traditional measures, however, should only serve as a point of departure from which other supportive measures, and those more selectively indicative of your specific business function, will be examined.

Second, select from the large volume of information **those items which best measure the use of capital employed.** Agribusiness firms are notorious for their persistent disregard of such items. Measures selected may be expressed as an annual rate of turnover or related to the dollar volume of sales. This will not only provide important intelligence regarding the quality of earnings (when expressed as a rate of return on capital), but will also provide management

with a broad view of the effectiveness of the use of funds entrusted to its care. Management needs to focus on the utilization of physical resources, the management of cash flows, the control over receivables, and the supervision of inventory levels. Cooperative agribusiness firms are, because of their service-at-cost focus, reluctant to measure returns on member investment. Such a reluctance should be overcome, however, as cooperative patrons, concerned about service or product costs, are also cooperative investors, who should be equally concerned about the effective use of their equity capital invested in the cooperative. While creation of large end-of-year earnings may be of lesser concern to cooperatives, returns to assets employed must at least equal the memberships' opportunity cost of capital.

Third, management should always **seek intelligence regarding net rates of earnings, expressed as a percent of sales for the period.** Earning rates serve as broad measures of the operating control existing over cost-volume-price relationships. This intelligence is particularly important for multi-product or multi-service agribusiness firms. It provides the basis for management evaluations of alternative pricing and cost accounting strategies. It also serves to sharpen management's skills in those areas related to price and product-line competition.

Next, select from the volume of information now available to you, that which **best measures your firm's general presence in the marketplace.** If necessary, such measures can be tied to market share or linked to the physical volume of shipments, current and projected. Order backlogs, volume of product handled with year-to-date comparisons, factory capacity utilization, product distribution, changes in shipment patterns, changes in sizes or types of products handled, and other such measures provide management with a sense of market intelligence critical to future decisions.

Finally, don't forget to selectively filter that information specific to any new product ventures, new procedures employed, new markets entered, or new services offered. Insofar as all such actions represent a shift from the long-established status quo of the business, management requires an intelligence feedback to render judgments on their continuation or termination.

What You Don't Need To Know

Once you've selected intelligence on the items listed above, as a manager, you have a right not to know much that remains in the ever-growing information pool. A manager who becomes directly involved in the review of voluminous reports of operating detail is abdicating his/her responsibility as a true leader of the business. In such a case, the manager is performing not as the company's CEO, but as an operating manager or administrator, and in large part, may simply be duplicating the efforts of others whose responsibility it is to control such operational details. The top manager has a right to be protected from unnecessary detail, from repetitive reports, and from information which does not inform or on which no action can be taken. This proposition is very bothersome for some managers who insist that they be informed of every last operational detail. Yet even at this operational level, their right not to know can be employed in a variety of ways such that management control is not sacrificed.

Obviously, reports can be condensed, and others can be eliminated. They can be made available only upon request or the distribution of the reports themselves can be sharply curtailed. Yet by far the most effective means of selectively limiting the actual volume of information is to restrict it to the use of standard variances and deviations. By predetermining what company sales, costs, and performance should be within the context of management's goals and objectives, the manager seeks to review only those data that suggest a variance or deviation from the plan. This process of "management by exception"

allows the CEO to concentrate only on those corrective actions required to achieve the company objectives.

A Trial Run

Many managers are reluctant to relinquish their routine access to voluminous reports. If you doubt the legitimacy of such a prospect, you might wish to conduct a trial run. Simply conduct a rapid survey of the current contents of your office and desk, plus that material which reaches your office in a normal day. First of all, separate the contents between that which is routine versus that which appears to be unfamiliar. Of that which appears new or unfamiliar, separate it further on the basis of that which is post-dated or obsolete versus current or pending. Finally, in the case of those materials judged contemporary and unfamiliar, conduct a final separation based on that which is or is not judged to be consistent or compatible with your company's long-range objectives. As a general rule, only that which is contemporary, unfamiliar, and at variance with your company's desired performance truly warrants your high-priority attention.

As a result of this simple exercise, managers rapidly recognize that decisions relating to "overhead," for example, are often locked in as an expense of doing business and need be reported on only periodically. Until such time as a basic change in either the scope or size of business dictates, a revision in the level of overhead support will be unlikely. Management, therefore, need only be made aware of unplanned deviations in the level of support required. A similar pattern of reporting operational exceptions can be applied to the area of production costs and marketing reports. As a general guide, the creation of reports should be based on the needs of those possessing the authority to take corrective action. Division management, plant or production supervisors, and district marketing supervisors, may therefore, make more effective use of exhaustive data. Assuming they possess both the ability and authority to implement corrective measures,

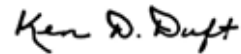
only summary reports of problems and actions need be forwarded to top management. In this manner, top management makes effective use of subordinate talents and receives condensed summaries against which to judge their performance or add support when required.

Summary

The modern agribusiness firm, through its use of microcomputers, now possesses the ability to produce a volume of information greatly in excess of that required by top management. As the volume of information reaching the manager continues to increase, the manager is less able to use this information effectively. At some point the manager must exert his/her right not to know some things. The process of imposing this right requires that management selectively

convert information to intelligence. This requires a screening process wherein information is judged relative to measures of: 1) current actual vs. predicted business results, 2) capital employed, 3) net rates of earnings, 4) market presence, and 5) new product/service ventures. Information addressing matters beyond these five areas should focus on reports of operational deviations from budget and company objectives. Management has a right not to know information that fails to meet these criteria.

Sincerely,



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