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AGRIBUSINESS MANAGEMENT

MANAGEMENT BY OBJECTIVE

In 1965, George S. Odiorne completed a textbook titled, *Management by Objective*. Just five years later, the same book was undergoing its tenth reprinting. The fact that the term "management by objective" has now become common nomenclature to company executives around the country attests to the success of Odiorne's literary efforts.

If the agribusiness manager devotes even a nominal amount of time to professional reading, he has no doubt encountered the term "management by objective." It is somewhat less likely, however, that he understands its meaning. Finally, it is extremely unlikely that the agribusiness manager has studied the concept in detail and applied it in his own operations. Hopefully, this letter will correct this apparent deficiency. The following discussion is designed to: (1) summarize the management related thoughts of Professor Odiorne, (2) review the basic elements of the management-by-objective system, and (3) illustrate the practical relevance of each system element to the area of agribusiness management.

The Underlying Premises

Odiorne's concept of management by objective is based on an underlying premise that any system of management is better than no system at all. A secondary premise states that to be workable, any management system must bridge the gap between the theoretical and the practical. A third important premise establishes that the appraisal of managerial performance is not an activity autonomous from other activities of the firm. In other words, it

regards the appraisal process as only one of several sub-systems operating within the confines of a goal-oriented management system.

Before proceeding into a discussion of the basic elements of the management-by-objective system several "statements of condition" seem warranted. Each of the following statements relates to the environmental conditions with which managers are confronted and establishes the setting for later determining the practical relevance of the management-by-objective system:

- A. Because the economic environment within which agribusiness firms operate has changed so drastically in recent years, a whole new set of requirements has been placed on companies and their managers.
- B. The preliminary step in the management-by-objective system dictates that managers identify, in some manner, organizational goals designed to meet the new requirements noted in A, above.
- C. Immediately following the identification of company goals, management must have available to it an orderly procedure for distributing or allocating responsibilities which are directed toward achieving those goals.
- D. In the practical world of agribusiness management, managerial behavior must become predominant over managerial personality. Furthermore, in the final analysis, results of the behavior (measured against established goals)

become the basic criteria for good performance evaluation.

- E. Total management staff participation in goal-setting and decision-making is recognized for its social and political value even though its impact on production levels may be negligible.
- F. There exists no one best system of management. Moreover, since managerial activity is dependent, to a large degree, on each manager's view of specific goals and the total economic system, his actions must be discriminatory.

By now you should note that each of the above conditions appears consistent with basic human intuition. For example, the notion that management activity should be directed towards the accomplishment of pre-established goals has considerable intuitive appeal. None of the conditions are at variance with acceptable manager conduct from either a social, legal, or common sense standpoint. Perhaps herein lies the secret to the success of Odiorne's concept. Nevertheless, we have not yet progressed beyond some general philosophical considerations. To do so, consider the basic elements of the proposed management system.

The Basic Elements

In its briefest form, Odiorne's decision-making system of management by objective contains the following basic elements: (1) Establish an objective before you begin; (2) Collect and organize all of the pertinent facts; (3) Identify the problem and its causes; (4) Work out a solution and some options; (5) Screen options through some decision criteria; (6) Establish some security actions to enhance the probable success of the solution; (7) Gain acceptance of the decision; (8) Implement the decision; and (9) Measure the results. Each of the nine elements shall now be considered in more detail.

Setting objectives: According to Odiorne, the first step in sound decision-making and systematic problem-solving is to define an objective. Why? In support of this first step, I would offer the following evidence.

In my contacts with the agribusiness industry I meet with many disgruntled managers who feel they are not being properly rewarded for their efforts. Cooperative managers, for example, claim their Board of Directors do not truly appreciate managerial performance. In many such cases, the manager, himself, is most to blame because of his failure to set an objective prior to taking action. Lacking the existence of an objective, the Board of Directors has no basis upon which to judge a manager's effectiveness as good or bad.

Objectives are *statements of expected outputs*; they should be defined before inputs are released, and they should be used by management to determine what inputs are to be used. Once established, an objective becomes a convenient measuring stick for judging (and then rewarding) managerial proficiency. Superior performance should no longer go without reward.

Odiorne performs a modest taxonomy on this initial step by classifying and rating objectives as (1) Regular or routine, (2) Problem-solving, and (3) Innovative or improvement. The regular or routine objectives are those described as relating to day-to-day chores which are necessary for the firm's survival and stability. In the agribusiness industry, for example, a regular or routine objective may be to obtain a monthly inventory report, file a yearly tax statement, or conduct weekly maintenance checks on all plant equipment. The end result of achieving the regular objective is that the firm maintains the status quo, i.e., no expansion or improvement in the *modus operandi* results.

Problem-solving objectives are granted a somewhat higher rating. These are related to those problems which arise as a result of

the natural tendency for matters to get worse if left alone. For example, a food processor may discover an increasing incidence of product contamination or defectiveness. Management's objective in this case may be to uncover the reason for the contamination or reduce defects to a specified level. Such objectives call for managerial problem-solving skills of a higher order than routine objectives.

Innovative or improvement objectives are awarded top priority in our hierarchy. These are the objectives which make things happen and rest on the assumption that the perfect completion of routine activities and the rapid solution of unexpected problems just isn't good enough. Innovative objectives specify quantum changes rather than rely on maintenance or restoration. Examples of such objectives within the agribusiness industry might include: capture 25 percent of the total market by 1972; convert to computer processing of all customer accounts by next spring; or initiate and conduct a management training program. In short, this third category differs from the first two in that innovative objectives connote action decisions rather than reaction decisions.

To summarize this first step in the management-by-objective system, therefore, *the superior manager is one who does all of his regular duties, solves his operational problems, and, in addition, adds new ideas through the establishment of innovative objectives.*

Gather the facts: Facts should be verifiable and agreed-upon data. They should be supported by some hard evidence to which all management staff should agree. A common management deficiency is the inability to separate facts from opinions. This distinction is made most difficult because of a characteristic of human nature, i.e., we all tend to attach to a fact our own personal biases or hunches. For example, this headline appeared in the newspaper, "Master Sergeant Charged with Treason." Immediately upon reading this headline, several biased assumptions began

to develop in my own mind. First, I assumed the sergeant was spying for a communist nation. Second, I assumed the military was, no doubt, totally infiltrated by spies who will never be uncovered. Yet, upon closer reading of the headline, I discovered only two facts: (1) the person charged was a master sergeant; and (2) the sergeant has only been charged with treason and not yet found to be guilty or innocent. This illustration is really not as absurd as it may first appear. Every working day, managers confuse facts with opinions, facts with personalities, facts with wishful fantasies, and facts with fear of the unknown. The end result of this inability to separate fact from fiction is a system whereby *management by emotion precludes any system of management by objective.*

Identify the problem: The difference between that which currently exists and that which you hoped would exist now or in the future comprises a problem.

Assuming all of the routine functions of your firm are being accomplished, the only remaining managerial function for maintaining operations at a given level is to *recognize problems when they arise and implement the appropriate solutions.* Problems, however, do not always arise as a result of something gone wrong. They are sometimes created in the mind of a decision maker, e.g., the manager may express an inward restlessness with present levels of operations. In such situations the manager conceives a gap between that which now exists and that which he wished would exist. This gap represents a problem which is often overlooked in the agribusiness industry. Managers find themselves totally occupied by the so-called brush-fire problems arising from daily operational failures. Acting as firemen, the managers have no time and little desire to be concerned about innovative problems.

Innovative problems arise as a result of management's attempt to alter (not maintain) a static environment or compete in a dynamic one. They often grow out of

competition wherein the need for long-run survival places a premium on new products, procedures, markets, and ideas. They may also result from technological obsolescence, e.g., many managers are so busy solving equipment failure problems, they fail to notice a technological improvement which renders their current line of equipment obsolete. People, like machines, also become obsolete. Most top managers display the ability to properly identify problems associated with human obsolescence. But, others feel that as long as the employee completes his task as well as he did twenty years ago, he is considered "no problem." Only top managers will realize that a problem does exist if the employees' performance over the twenty years has failed to improve in response to training, experience, etc.

Develop a solution and options: Before selecting what the manager believes to be the *optimum* solution to a problem, he must develop several alternative solutions.

First, management should make a hard specification of the problem. The difference between a hard and soft specification may best be defined as the difference between a tangible, measurable problem and one which is vaguely identified, dubiously labeled, and poorly confined. In business, as in our personal lives, we display more skill at soft specification of problems, e.g., it's a social problem or a moral problem or a political problem. While such verbalizations place problems in acceptable categories, they become detrimental to the development of workable solutions. To eliminate the possibility of soft specifications, each alternative solution should be accompanied by a statement of charge, i.e., a declaration as to exactly what the solution is supposed to rectify and how.

As a second step to solution development, management should describe the problem being confronted in terms of end results desired, intervening variables (extenuating circumstances), and root causes. Third, an attempt should be made to separate those

root causes which are fixed (unalterable) from those which are conditional (subject to management action). This third step is particularly crucial to the agribusiness industry where, for example, a processing problem may be caused by defective equipment (fixed) as well as by variations in the quality of the raw product (conditional). Closely related to the third step, the fourth step calls for the separation of the vital from the trivial causes. The final step in solution development calls for management to follow innovative processes in option generation. In short, this *asks managers to use their imaginations and not be constrained by standard solutions developed a decade ago* and used religiously ever since. Optimal solutions are rarely standardized -- no more so than are problems in this dynamic economy.

Screening option: In the simplified view of management, decision-making refers to the singular, heroic action of choosing one alternative out of all those available. Choosing the optimal solution from amongst several alternatives is no easy task and requires that each alternative be properly screened prior to selection.

The development of a screening criteria assumes that each alternative solution will be subjected to a standardized test of preferred outcome. To simplify the development process, managers may wish to use the following guidelines. Each option should be confronted with five questions. The answers to these questions should assist management in selecting the optimal solution. The questions are: (1) What will each option *contribute* toward the attainment of the objective selected at the time the system was installed? (2) What about the *cost* of each option relative to its likely effectiveness? (3) What is each option's *feasibility*? (4) How much *time* will be required to implement each option? and (5) Are there any *undesirable side effects* associated with each option?

Establish security action: When you are embarking for an afternoon drive in the country you do not anticipate having a flat

tire. Yet to *guard against the consequences of the unexpected*, you do carry a spare. Similarly, when you are about to implement your choice of alternative solutions, you do not anticipate failure. Yet it would seem wise to try and protect yourself from the unexpected. These protective policies are often referred to as security actions.

Security actions are not uncommon to the agribusiness industry. Returning to the processing illustration used earlier, management may decide that the optimal solution to the problem of inadequate capacity is the replacement of the old plant equipment with more efficient versions. Yet, to protect himself against the consequences of an unprepared-for breakdown in the new equipment, the older machines are retained and held in reserve. Many similar examples could be found in other sectors of the industry. So long as security actions are not relied on too heavily, they become highly complementary to sound decision-making.

Gain acceptance: The ideal solution is one which best combines the needs of two sets of requirements -- logic and acceptance. On this point, management experts divide into two factions. One faction insists that the quality of a solution is dependent solely on its logical base, i.e., its mathematical accuracy, its rigor, or its quantum efficiency. The other faction, which this author supports, proposes that while logic is important, the ultimate success of a solution also depends on its acceptance by those persons who have the ability to make even the most logical solution fail.

Acceptance, therefore, must become a vital component of management by objective. Without it, even the best solutions will be poorly implemented and the objective never attained. The methods of gaining acceptance are many and varied. There exists an increasing amount of research evidence to indicate that people who participate in solution decisions that affect them will accept and execute the solution more effectively than if it had been dictated. Hence, *the secret to acceptance*

appears to be the open involvement of all those who are to be affected by the solution and its accompanying attainment of the objective.

Implement the decision: Now that the optimal solution has been selected and accepted, the obvious next step is that it be implemented. Implementation, of course, becomes the real action stage of the management-by-objective system. Three important factors have an impact on the implementation process: the manager, the subordinates, and the discipline situation.

The manager, himself, represents an important ingredient because, at this point, the degree of autocracy exercised may determine success or chaos. Generally speaking, the manager's actions should be consistent with the amount of control he can exert. Implementation failures are often attributable to the manager who, having little control over his firm or his behavior, attempts to become an overly dominant leader.

The degree of dependence which exists amongst subordinates and between the manager and his subordinates will also affect implementation. A high degree of dependence indicates that implementation is likely to be a team effort. A low degree of dependence suggests that strong leadership will be a necessary prerequisite to implementation success.

If the situation is one in which tight discipline has been historically present, then the time required for successful implementation may be relatively short. If, however, management has been somewhat more permissive, implementation will be more time consuming and likely to require some highly creative managerial behavior.

Measure the results: As a logical last step in the management-by-objective system, the decision maker should analyze the results of his actions. Had all the preceding steps been perfectly executed, there would be little need for the review process. But, in real life, we all know that perfect

execution rarely, if ever, occurs. The optimal solution is confronted with unforeseen obstacles, the market takes an unexpected turnabout, or managers, as human beings, are found to be fallible. Hence, because of execution imperfections, a final control stage must exist whereby management observes the results of its action in the hope that later decisions will be improved. This final stage in the management-by-objective system should include two important elements: (1) It should provide for a judgment as to the similarity between the end result and that which was desired (your objective), and (2) It should permit corrective action to restore firm performance to that described in the objective.

Summary

Successful management consists of setting good objectives and making the right choices towards their achievement. Those who fail these two basic tasks, fail as managers. Management by objective is a generalized procedure which lends itself well to that portion of management capable of being systematized. The remaining portion of management evades both theory and systems.

Sincerely,



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