

## **The Forgotten Branch of Management by Exception**

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One of the key aspects of managing a cooperative is the control function. The controlling function involves checking actual performance against benchmarks and historical standards. This leads to the concept of “Management by Exception” where management attention is concentrated on the areas of greatest need where outcomes differ from the standard. Many managers think of management by exception in terms of defining when to take corrective action. However there are actually two types of exceptions: Problems, when outcomes are below standards and, Opportunities, where outcomes are above standards. The opportunity branch of management by exception is an underappreciated avenue to increased profitability.

A key aspect of management by exception is to attempt to identify the factors that led to the exception. In the case of underperformance, that understanding would be used to try and correct the situation. For example, if the cooperative is experiencing a higher than average level of shrink in the feed warehouse the manager would want to investigate the underlying causes. The cause of the shrink may be found to relate to insufficient training on forklift operation, improper warehouse layout, warehouse condition or even theft. Now consider the alternate condition: what happens when the feed shrinkage is significantly below what other cooperatives experience or is decreasing over time? The temptation is to conclude “Joe does a great job of managing the feed warehouse! That frees my time for other issues!” The manager misses the opportunity to identify and understand the factors that resulted in above average warehouse performance.

In a grain handling and farm supply cooperative there are many opportunities to identify opportunities. When grain shrink is below average and storage problems are low, the manager can investigate the cause. Perhaps the timing of aeration or fumigation was different. Perhaps the grain was received at lower than average moisture, or the fall weather was cooler than normal. The result is a better understanding as how to maximize stored grain quality. A similar situation could occur when the cost per acre of fertilizer application is unusually favorable. The manager could investigate whether there were changes in maintenance procedures, scheduling and routing improved, or again, perhaps weather during the application period was above average. Even in cases where the cause of the exception was outside the cooperative’s control, identifying the impact may help in future planning.

Employees and managers can learn by correcting what they are doing wrong. They can also learn by noticing what they are doing right. Don’t forget the opportunity branch of management by exception.

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