The Philosophy And Practice
Of
Management By Objectives

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Introduction

"Management by Objectives" (MBO) as a philosophy of management was first introduced by Peter F. Drucker in his book "*The Practice of Management*" in 1954. The philosophy of management by objectives comprises three building blocks: formulation of objectives, process of execution, and mechanism of performance measurement and feedback.

Management by objectives, however, was not adopted in its entirety in the first place but conducted in part, especially the very aspect of performance appraisal, even though it has been popularized and broadly practiced both in public and private sector. It has been supported and improved by researchers and practitioners, and evolved from an essential philosophy to a complete practice of management. Nowadays, it comes to apply not only to performance measurement but also to every management function.

The popularity of management by objectives should not be construed to mean that it always works. Some criticize the incompleteness of management by objectives and attribute the failure to its unfitness to enterprises. Others ascribe the failure to factors such as unrealistic expectations regarding results, lack of commitment by top management, and an inability or unwillingness by management to allocate rewards based on goal accomplishment. In fact, a systematic approach for enterprises to implement management by objectives is more critical.

The researcher will examine the philosophy and practice of management by objectives, and introduce a new approach to it.

The Philosophy and Practice of Management by Objectives

"Management by Objectives" (MBO) as a philosophy of management was first introduced by Peter F. Drucker in his book "*The Practice of Management*" in 1954. As he wrote:

> *What the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility, and at the same time give common direction of vision and effort, establish team work, and harmonize the goals of the individual with the commonweal. The only principle that can do this is management by objectives and self-control ... But management by objectives and self-control may legitimately be called a "philosophy" of management.*

With decades of evolvement, the philosophy of management by objectives is formed with three major ingredients: objectives formulation, execution process, and performance feedback.

The Evolvement of Management by Objectives

The business is getting dynamic and volatile. For any notion or practice of management to be viable and effective, it must continue to evolve. "MBO has come a long way, from a performance appraisal tool to a device for integrating individual and organizational objectives, and finally to a long-range planning instrument. MBO has probably survived as an effective managerial approach because it has changed, grown, and developed." (Weihrich)

It is because management by objectives has been supported and improved by researchers and practitioners that MBO has been accepted and implemented in many businesses such as General Motors, General Electric, General Foods, Quaker Oats and others, both large and small. (Krueger) A recent research by Heinz Weihrich[1] suggests further integrating new ingredients to the system of management by objectives in the next stage.

The Next Stage

The proposition of Weihrich on management by objectives in the next stage follows:

1. MBO is viewed as a system of managing in which many key managerial activities are integrated.
2. Systems concepts are used to emphasize the interdependency of MBO with its environment.

The researcher will introduce his new model, SAMBO, latter.

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[1] *Heinz Weihrich, Ph.D., Assistant Professor of Management, Arizona State University, Tempe, Arizona*

Objectives formulation

Objectives formulation is one of the most important strategic processes. It works out well-communicated hierarchy of objectives and participatively determined, people-motivated, and SMART objectives.

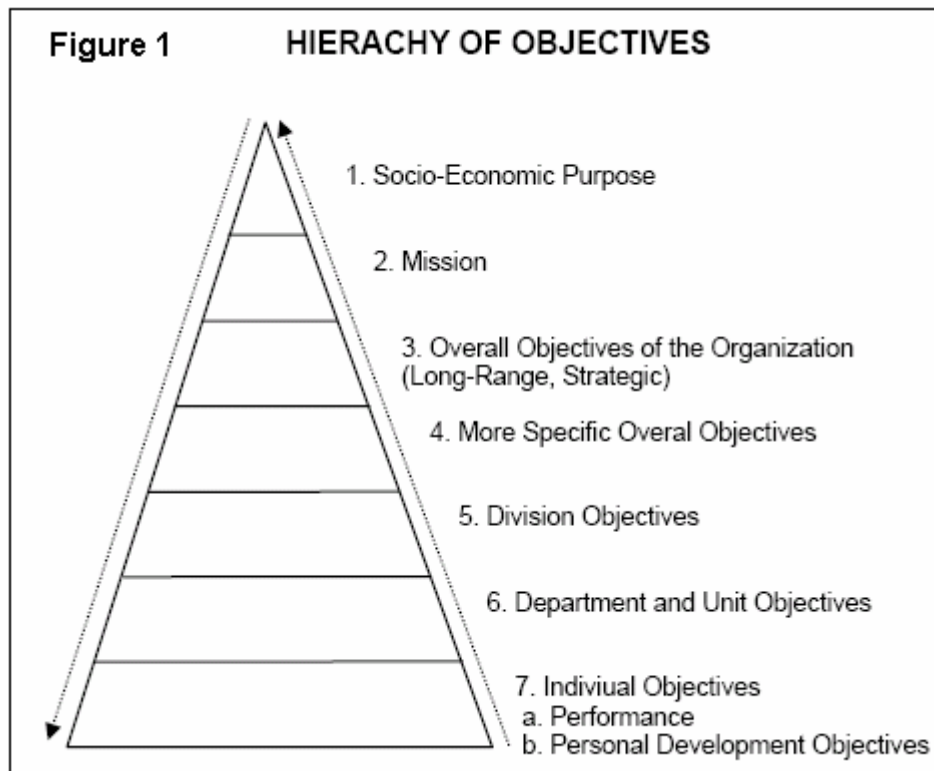## Well-communicated hierarchy of objectives

Strategic planning is the basis of determining the hierarchy of objectives, shown in figure 1. In strategic planning, opportunities and external constraints are analyzed and matched with the internal strengths and limitations of the organization. "The fundamental purposes, the mission, the overall objectives as well as the more specific overall objectives are, to a large extent, determined by top management, with, of course, input from lower level managers. These objectives are then further broken down into divisional, departmental, unit, and individual objectives." (Weihrich) Also, "Each manager, from the 'big boss' down to the production foreman or the chief clerk, needs clearly spelled-out objectives … These objectives should always derive from the goals of the business enterprise." (Drucker)

Objectives need to be well communicated. A favorite story at management meetings is that of the three stonecutters who were asked what they were doing. The first replied, "I am making a living." The second kept on hammering while he said, "I am doing the best job of stonecutting in the entire country." The third one looked up with a visionary gleam in his eyes and said, "I am building a cathedral." (Drucker) The first stonecutter knows only his own objective, the second may or may not have an idea of what his objective was, while the third one can recognize not only his own objective but also the one of the whole. Well-communicated hierarchy of objectives helps to motivate people and pull efforts in the same and right direction.

Participatively determined objectives

"The process of setting objectives, however, is not a one-way street. Communication and planning efforts must go in both directions (down and up) as indicated in Figure 1." (Weihrich)

The goals of each manager's job must be defined by the contribution he has to make to the success of the larger unit of which he is a part. This requires each manager to develop and set the objectives of his unit himself. Higher manager must, of course, reserve the power to approve or disapprove those objectives. It means, too, that every manager should responsibly participate in the development of the objectives of the higher unit of which he is a part. For example, the objectives of the district sales manager's job should be defined by the contribution he and his district sales force have to make to the sales department. (Drucker)

Figure 1   HIERACHY OF OBJECTIVES

1. Socio-Economic Purpose
2. Mission
3. Overall Objectives of the Organization (Long-Range, Strategic)
4. More Specific Overal Objectives
5. Division Objectives
6. Department and Unit Objectives
7. Indiviual Objectives
   a. Performance
   b. Personal Development Objectives

People-motivated objectives

It is not a new idea! In fact, it was originally proposed 50 years ago as a means of using goals to motivate people rather than to control them. Goal-setting theory demonstrates that hard goals result in a higher level of individual performance than do easy goals, that specific hard goals result in higher levels of performance than do no goals at all. Consistent with goal setting, MBO would be most effective when the goals are difficult enough to require the person to do some stretching. (Robbins) "It motivates the manager to action not because somebody tells him to do something or talks him into doing it, but because the objective needs of his task demand it." (Drucker)

SMART objectives

An objective comprises two parts: target and action. As a rule of thumb, a good objective should be SMART, that is, the target of objective should be specific, measurable, and attainable, while the action of objective should be results-focused and timely. (American Library Association)

- Specific: concrete and use action verbs.
- Measurable: numeric or clearly descriptive.
- Achievable: feasible, appropriately limited in scope, and within the organization's control and influence.

- Results-focused: measures outputs or results (not activities) and Includes products, accomplishments.
- Timely: identifies target date.

Here is an example:

In order to find out why our subscribers do not renew their subscriptions, the Customer Service Department will develop a process for conducting a survey and write a survey instrument, based on the 2002 survey, by December 31, 2003.

Execution process

Many of the most important factors that lead the implementation of management by objectives to failure lie within execution process instead of its basic components. It is not uncommon that most managers are capable of doing a good job on planning or paper work, but they usually let plan go itself. They stress more on the plan than the pain to get things done. "Many business leaders spend vast amounts of time learning and promulgating the latest management techniques. But their failure to understand and practice execution negates the value of almost all they learn and preach. Such leaders are building houses without foundations." (Bossidy & Charan)

There are lots of factors that can result in failed implementation of management by objectives, but two key points are worthy of mention: team work and proper use of reports and procedures.

Team work as balancing efforts towards objectives

Team work makes it possible that individual efforts in a group bring about greater performance than the sum of individual inputs. (Robbins) The project to build the Apollo 13 spacecraft is a good example of team work. How long in the world does it take to build it by a single individual or uncollaborated individuals? It may never come to a spacecraft! For enterprises to compete and survive nowadays, it will hardly be disputed that "Any business enterprise must build a true team and weld individual efforts into a common effort." (Drucker)

Team work also implies balancing efforts towards objectives. Unbalanced efforts or empire building will counteract the performance of organization. "For managers must understand that business results depend on a balance of efforts and output in a number of areas. This is necessary both to give full scope to the craftsmanship of each function and specialty, and to prevent the empire building and clannish jealousies of the various functions and specialties. It is necessary also to avoid overemphasis on any key area." (Drucker)

Proper use of reports and procedures

Reports and procedures are necessary tools, but few others can be as easily misused as they can and do so much damage as they do. Once reports and procedures are misused, they cease to be tools and become malignant masters. There are three common misuses of reports and procedures. The first is the all too common belief that procedures are instruments of morality. The second misuse is to consider procedures a substitute for judgment. But the most common misuse of reports and procedures is as an instrument of control from above. (Drucker)

Reports and procedures should focus only on the performance needed to achieve results in the key areas, should be the tool of the man who fills them out, and must never themselves become the measure of his performance. Reports and procedures should be kept to a minimum, and used only when they save time and labor. They should be as simple as possible. (Drucker)

Performance feedback

Attaining objectives is a progress of improvement. "A critical enabler in achieving desired performance goals is the ability to measure performance." (Harbour) As the saying goes, "You can't improve what you can't (or don't) measure."

A manager will make contributions to enterprises only if he is effective and efficient. For a manager to know his objectives is for him to do the right things, but how well does he do the things right? "To be able to control his own performance, a manager needs to know more than what his goals are. He must be able to measure his performance and results against the goal." (Drucker)

An effective performance appraisal system relies on objective measures and results instead of subjective perceptions of superior, stresses on self-control measurement but control from above, and provides continuous and immediate feedback of performance information.

Verifiable measures

Objective appraisal with verifiable measures is better than subjective evaluation by perceptions. Verifiable measures are quantitative or descriptive. Using numbers is not the only objective way to measure. The thinking of quantitative measures only is limiting and can result in measuring what is easily quantifiable but not what is most important. Descriptive measures are complementary to quantitative ones when numbers don't make sense. (Zigon) "These measurements need not to be rigidly quantitative; nor need they be exact. But they have to be clear, simple, and rational." (Drucker)

Measuring performance can help drive desired business results. The key to successful performance measurement is to collect only those performance measures that can or will actually be used. The following are common used family of measures: (Harbour)

- Productivity measurements (e.g., 25 units produced per week).
- Quality measurements (e.g., 3.8 defects per 25 units).
- Timeliness measurements (e.g., 96 percent of orders completed on time).
- Cycle time measurements (e.g., a production cycle time of 6 hours per unit).
- Resource utilization measurements (e.g., production workers utilized 65 percent of the time).
- Cost measurements (e.g., production cost of $325 per unit).

Result-oriented

Aim at the results to attain objectives, not the activity or competency! Activity-oriented measurements focus on activity, behavior, or actions which are means, not ends. It generates more activity, because what gets measured gets done. Competencies define what skills, knowledge and experience an individual needs in order to produce results. Having a skill and using it successfully, however, are two very different things. A car mechanic with a certificate of training completion on the wall is not the same as a repaired car. (Zigon)

"In its early application, MBO overcame some of the problems of traditional appraisals that emphasized personality traits. In MBO appraisal, on the other hand, the focus is on results. Performance is evaluated against verifiable objectives, rather than purely subjective judgments by the superior. Moreover, in MBO the attention is on contributions individuals make to the broader organizational aims." (Weihrich)

Self-control

The results of performance measurement should go directly to the one who is evaluated instead of to his or her superior. It should be the means of self-control, not a tool of control from above. "The greatest advantage of management by objectives is perhaps that it makes it possible for a manager to control his own performance. Self-control means stronger motivation: a desire to do the best rather than just enough to get by. It means higher performance goals and broader vision."

Continuous feedback

Attaining objectives is a progress of improvement. Actions to improve never come to an end; hence performance feedback needs to be continuous and immediate. "Each manager should have the information he needs to measure his own performance and should receive it soon enough to make any changes necessary for the desired results." (Drucker)

The goal of any performance measurement system is to provide the right people with the right performance-related information at the right time. One highly successful service company, for example, has developed a real-time computer-based performance system that can collect and distribute a number of performance measures, depicting how rapidly the company is responding to various customer requests. Armed with this information, the company can make on-the-spot adjustments in work assignments to ensure customers are receiving the highest level of service possible. (Harbour)
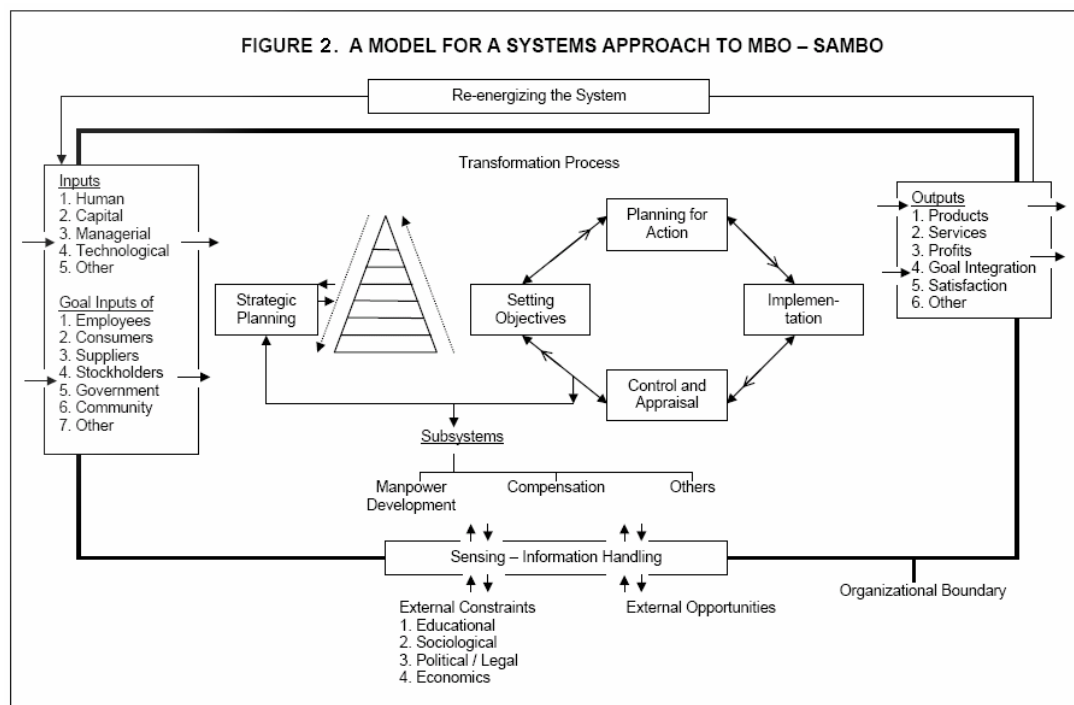
Systems Approach to Management by Objectives

Management by Objectives has undergone considerable change over the years to become a managerial system that integrates the key management activities of planning, organizing, staffing, directing, and controlling. In 2000, Weihrich suggested a new model: the Systems Approach to MBO (SAMBO). This model integrates the well-proven aspects of management by objectives and adds some new important dimensions to it.

In essence, SAMBO further recognizes the interdependence of the organization and its environment from an open systems perspective. In its early development, management by objectives first became a breakthrough against traditional appraisal tool, integrated individual needs with organizational objectives, and then expanded to include long-range strategic planning. The framework of SAMBO is shown in Figure 2.

The Framework of SAMBO

SAMBO is a systematic model that connects a set of components interdependent to transform inputs into outputs while sensing and adjusting to external environment. The transformation process of SAMBO comprises seven elements: strategic planning and the hierarchy of objectives, setting objectives, planning for action, implementation of MBO, control and appraisal, subsystems, and organizational and management development.

FIGURE 2. A MODEL FOR A SYSTEMS APPROACH TO MBO – SAMBO

Conclusion

Management by objectives today is not just a philosophy of management. Rather, it has evolved and developed as a system of managing that integrates a group of processes such as planning, implementation, performance measurement and feedback, strategic planning, change management, and so forth. To be sure, it will keep changing, growing, and developing.

Management by objectives is driven by objectives that derive from strategic planning. A sound process of objective formulation works out well-communicated hierarchy of objectives, participatively determined, people-motivated, and SMART objectives. A successful implementation of management of objectives depends on lots of variables. Team work and proper use of reports and procedures are examined as a reminder. Attaining objectives is a progress of improvement. An effective performance appraisal system is based on verifiable measures, stresses results and self-control, and provides continuous and immediate feedback.

By examining the philosophy and practice of management by objectives and reviewing recent research on its model, the reader can clarify the status of the system of management by objectives within an organization and further fit it into production.

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