MANAGEMENT BY OBJECTIVES AND RESULTS FOR BUSINESS AND INDUSTRY

Second Edition

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PREFACE

Why Was this Book Written?

The original version of this book, *Management by Objectives and Results* (Addison-Wesley, 1970), has been adopted by many diversified training organizations as the official text for their MBO training programs, in spite of its industrial orientation. Feedback I have received from those organizations adopting it is that its operational "how-to" approach made it relatively easy for most managers to understand and apply the process. However, there was still the inevitable resistance from some who said, "That may be fine for that type of organization, but it really doesn't apply to us." There are some significant differences in making the MOR (MBO) process work in certain kinds of organizations, although in most cases these differences are more in degree than in kind. Therefore, at the urging of many managers and trainers in organizations who found the first book useful, I have responded with a "how-to" book that expands the base of reference substantially, providing a larger number of "real world" illustrations drawn from a wide variety of business, industrial, commercial, and service organizations. This edition is a modification of *Management by Objectives and Results in the Public Sector* (Addison-Wesley, 1976) which was directed at managers in government.

A second reason for writing this book is that it has been six years since the original version was completed. I have learned

quite a bit more about making the process work during that period, both from my own experience as a manager (including the establishment of my own company) and from my role as an external consultant. Through data gathered from the many seminars I have conducted during that time, the wide diversity of organizations — public and private — with which I have worked, and professional colleagues with whom I have been associated, as well as personal application, I have modified the process to the point that it is now both simpler and more comprehensive than the earlier one. It is still conceptually consistent with the original, so that those who are familiar with that one should not have difficulty in making the transition. In addition, I have incorporated into this version several new optional working tools (Decision Matrix, Alternative Evaluation Chart, Action Plan Format, for example) that have been developed and validated since then.

Who Is Responsible for Implementing MOR?

All members of management and, to a certain degree, all employees have a responsibility in the implementation of MOR. In fact, without reasonable cooperation at all levels, the likelihood of substantial success is quite limited. For our purposes, we will concentrate on this process as it applies to members of management (although many individual employees will be able to apply the same principles and methods to their own jobs). For identification, we will divide members of management into three categories.

1. *Top management* usually includes the executive officers, the heads of major functional units who report to the senior executive, and, in some cases, a board of directors, executive committee, or a holding company organization. The role of this group, normally, is to establish policy and determine broad, total-organization objectives, beginning with a clear determination of the organization's roles and missions — its reasons for existence. Top management will also specify, where appropriate, objectives related to such things as profit expectations,

major markets or customers to be served, expansion or growth, research and development, etc. This group is concerned primarily with the large-scale "what-to-do's" and relatively little with the "how-to-do's."

2. *Middle management* generally comprises those managers who have other members of management reporting to them and who are accountable for the efforts of several organizational units. Their starting point is also a clear determination of their own roles and missions, which encompass those of their subordinate managers and directly support those of their superiors. From that base, they determine their own objectives, which will be most concerned with such key results areas as production output, operational innovations, cost effectiveness, managerial effectiveness, etc. This level of management is about equally concerned with the "what-to-do's" and the "how-to-do's."

3. *First-line management* represents supervisors over individual employees who carry out the tasks required to meet the objectives of the organization. As with the managers in the other two categories, their objectives begin with a clear determination of their own roles and missions. However, these roles and missions may have been defined largely by their superiors, in keeping with those of the larger organizational unit represented. Subsequent objectives will, in general, be short-term (semiannual, quarterly) in nature and directed toward such key results areas as unit output, individual productivity, employee development, quality control, etc. First-line managers generally have a heavy concern for the "how-to-do's" and a relatively modest one for the "what-to-do's," many of which are likely to have been identified by their superiors.

For Whom Is This Book Written?

This book is designed as a guide for individual members of management at all levels, from the top on down. Although it deals with the establishment of total organizational roles, mis-

sions, and objectives, it addresses itself primarily to those of individual managers, regardless of level, and the operations for which they are accountable. Most of the illustrations used will apply to middle and first-line management. However, members of top management as well as individual line and staff specialists will be able to apply the same principles and techniques to the development of their own approach to managing their operations.

What if the top-management decision makers have not established clearcut objectives that are consistent with the principles covered in this book, or what if they do not manage in a manner that encourages this form of managerial activity? Is the MOR process impossible to implement without an impetus from that top group? No! Needless to say, the process would be much less complicated and its implementation would be much smoother and faster if there were clear direction from above and consistent understanding at all levels of management. In the "real world," however, such a situation may not exist. This does not relieve the individual manager of the responsibility for managing as effectively as possible.

The truly professional manager, regardless of position in the chain of command, can and in fact must continually work toward improving his or her managerial effectiveness within the environment. This may well include a systematic education of the boss. Actually, realistic and significant inputs from subordinate managers frequently will lead to a clearer definition of objectives and understanding of the management process at higher levels.

A Word about Sex

Although presumably sex can and, I suspect, frequently is, managed by objectives and results, my reference here is related to *gender*. Recognizing the fact that the word *manager* is neither male nor female in its derivation, I have been converted by my feminist colleagues (notably Mary Fuller, Dru Scott, Doris Seward, and Theo Wells) to a writing style that

eliminates male-dominant language. Furthermore, I must confess, once I conditioned my mind to thinking in that vein, it was not nearly as difficult to make the change as I thought it was going to be. A manager, man or woman, should be able to follow the language in this book without having to make a mental translation.

How Can This Book Be Used?

This book will serve ideally as a *text for an organizational training program* on Management by Objectives and Results. Several effective approaches to conducting such a program are described in the *Instructor's Guide,* which is available separately from the publisher.

It will also function effectively as an *MOR manual,* supplemented by specific organizational illustrations, for someone wishing to institute a uniform organization-wide approach.

It will work hand-in-hand *with the self-teaching audiocassette program* on MOR, which is available separately from the publisher or from MOR Associates (P.O. Box 5879, Buena Park, CA 90622). Together, they provide an effective learning experience for the individual manager, a small informal group (such as a manager and his or her immediate subordinates), or as a part of a formal training program. *The workbook that accompanies this program is also available separately for seminar use.* To meet special needs, tailored versions of the audiocassette program can be prepared for use by trade associations or relatively large companies. Contact MOR Associates for further information.

For use as an *individual study guide* for the working manager or student of management, we make these recommendations:

1.   Read the Preface, Chapters 1 and 2, plus Chapter 11 for an overview of the MOR philosophy and process. You also may wish to look at Chapter 9, which deals with "Communications — The MOR Catalyst."

2.   Determine which of the following alternatives best serves your individual needs:

a) Selective learning of specific techniques to supplement your existing knowledge.

b) Concentrating on learning the objective-setting and action-planning steps for use in your individual or unit efforts.

c) Learning and applying the entire process to your job.

3.   If you have selected 2(a) as most appropriate for you, the recommendation is easy. Study and practice those steps which will satisfy this need. A word of caution, however: you should be aware that some of the techniques described may not work as effectively outside the total MOR context.

4.   If 2(b) seems best for you at the moment, Chapters 6 and 7 will be of most value to you. We recommend that you identify one major work effort that would be suitable for initial application of this approach. Then, following the guidelines given, write out the objective(s) and action plan(s) required to accomplish it. Concentrating on only one major effort will give you an opportunity to learn from the experience, after which the application of MOR can be further expanded as desired.

5.   If you are ready to commit yourself to 2(c), you may wish to begin with one or more objectives (as in item 4 above), or you can start right off with defining your roles and missions or key results areas. (The first part of Chapter 10 may prove helpful in making the actual determination of where to start.) The physical act of writing out the various steps described and having them reviewed by others, as appropriate, is critical to the effective learning of the MOR process. In this respect, we strongly recommend that you concentrate initially on developing the skills in a few key areas of work effort, gradually working the approach into the total job.

6.   Use the book as a continual reference, particularly Chapter 12 and the various working tools and checklists, as you continue your application of the MOR process.

7.   Don't get discouraged when you hit the inevitable periods of setback and frustration in application of the MOR approach. Stay with it, and both your satisfaction and effectiveness will increase as you continue to develop your skill.

Acknowledgments

Thanks go to the many managers, in both the public and private sectors, who have participated in my seminars, as well as those who have given me direct feedback on my writings, for forcing me to refine the MOR process to the point that it is now, more than ever, a truly practical approach that any dedicated manager can use. I am particularly grateful to:

1.   *Donn Coffee,* with whom I worked for 2½ years in conducting the Managing By Objectives seminars for AMR International, for a stimulating growth relationship that not only made a major contribution to the improvement of the MOR process itself, but also helped provide the vehicle for me to establish myself firmly in the world of management consulting;

2.   *George Odiorne,* for his continued encouragement in my efforts, but even more for being the individual who, more than any other, is responsible for establishing Management By Objectives as one of the most widely recognized managerial approaches throughout the world;

3.   *Noel Fenton, Acurex Corporation, Ron Regnier, Arizona Public Service Company,* and other managers in their organizations, for sharing their experiences in the "real world" of working with and implementing Management by Objectives and Results;

4.   *Addison-Wesley,* finally and belatedly, for taking a chance over ten years ago on an unknown trainer who thought he could be a writer, without whose help I would not be achieving the objectives I have today.

Buena Park, California   G. L. M.
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INTRODUCTION: THE MOR CONCEPT

When Management By Objectives (MBO) came into vogue in the early 1960s (it's been around much longer, but not necessarily under that label), it was applied primarily to the corporate-level financial, sales, and production results desired. Its potential contribution to the improvement of "bottom line" results was obvious. However, many managers discovered that the more they got into it, the wider they found its application. It became increasingly evident that MBO was really a philosophy of management, one that could be applied to virtually anything, including many vital contributions that never show up directly on the "bottom line."

A multiplier effect seems to go to work on people who start to follow this managerial approach. They frequently begin by applying it to some of the more obvious business results that are reasonably easy to identify. As they become more comfortable with it, however, they see an even greater value in using MBO to help them determine what results they want, individually and organizationally, in some of the less tangible, yet just as critical, areas of the business. Many have taken it a step further still and applied it to their personal lives and careers. The prospect of getting a better "return on investment" has real meaning for anyone who is achievement oriented, whether that be related to corporate profits, improved service, increased team effectiveness, career planning, or, even, going on vacation.

The original version of this book, *Management by Objectives and Results* (Addison-Wesley, 1970), was based largely on my experience in teaching the process to managers in a research-and-development environment. Since that time, I have served as a manager and internal consultant with two additional organizations, one in industry and one in government and, more recently, have organized my own consulting firm, which has given me the opportunity to work with thousands of managers from hundreds of different organizations and disciplines. This has led to a further refinement of the MOR process and a much broader range of applications and illustrations. We have also placed a much stronger emphasis on the human element necessary to make MOR work in organizations. The process has now stood the test of time in the "real world" of managers who must use it.

What MOR IS! What it is NOT!

Management by Objectives and Results (MOR) is a further refinement of the MBO process, incorporating a closed-loop approach to ensure that the *results* achieved do in fact resemble the objectives that were set. I see this as considerably more than a semantic difference, as will become evident.

MOR is a commonsense, systematic approach to getting things done and is based on principles and techniques that many good managers have been practicing for decades. In spite of the new jargon that has come into vogue (this book will be kept as jargon-free as is humanly possible), there is nothing mysterious about MOR. It does not require a manager to stop what he or she has been doing successfully for years and learn a whole new approach. That would be idiotic. MOR does require the manager to focus on *results* rather than on activities, building on the strengths that he or she has developed over the years, with modifications and additions as good judgment dictates.

Management methodology today can be placed on a continuum between two theoretical extremes.

MAR _____ MOR

At one end of the continuum is Management by Activity or Reaction (MAR). In this approach, planning is accomplished immediately prior to or in concert with action, and there are frequent changes in plan due either to lack of time in which to consider alternatives or to lack of a predetermined objective. Thus we have what is sometimes called seat-of-the-pants management. This extreme is illustrated by the manager who comes to work in the morning without any real idea of what will happen that day. The first crisis that comes along — an upper-management demand for a customer-requested report on an action item, a group of visiting dignitaries, or a requirement to redo some work that didn't meet expectations — sets the stage for the day. Effectiveness is measured by the flurry of activity that goes on and the effort that is put forth rather than by the results produced.

At the other end of the continuum is Management by Objectives and Results (MOR). Here, management defines in advance the results to be achieved and the action plans required for the achievement of these results. Implicit in this management approach is a plan for overcoming obstacles and for establishing priorities when crises do occur (as they will). A style of management at this extreme does not even require the presence of the manager at any given time.

In practice, neither extreme is likely to exist in its purest form. It is unrealistic to hope that any manager will be so gifted with foresight that there will never be a requirement to manage by reaction in response to unexpected conditions. On the other hand, very few managers will continue to survive in today's competitive world by managing strictly on a day-to-day basis. This is why we began by speaking of a continuum between two extremes. A given manager's location on the continuum will vary substantially from day to day and even from hour to hour. We could probably reach almost unanimous agreement, however, that management is more effective when the preponderance of effort is directed toward the right-hand end of the continuum — toward objectives and results.