Management by Objectives

Fred Emery, October 1990

In the note on `management of self managing groups' I stressed the central role of `management by objectives'. To those who have followed the history of theories of management this must have seemed a conclusion arrived at in ignorance or despair.

When Peter Drucker spelt out the concept of management by objectives in 1954 it was widely acclaimed. It was an obviously sensible idea .It provided the much needed contrast of the different levels co-operating in the `management of things' to the traditional, supervisory centred, notions of the `management of people'. Drucker's notion suggested ways in which the value of a manager to a corporation could be judged in fairly objective ways instead of being judged by how he or she played up to and appeared in the eyes of their boss. It was a proposal that offered a considerable increase in the self control of managers.

MBO (Management by Objectives) was enthusiastically adopted by the major corporations. By 1970 it was being seen as a waning fad (Levinson, 1970). Critics were not denying that it was a splendid way to run a business but they were pointing out that it was incompatible with the bureaucratic form of organization. Attempts to graft MBO onto bureaucracies either failed outright or evolved into a personnel control mechanism for rewarding or punishing managers- a sort of Taylorism for managers.

The reason is simple and fundamental. Objectives can be meaningfully formulated only at the level to which activities are co-ordinated and controlled. The `system principle' of bureaucracy is that co-ordination and control are located. as far as possible, at least one level above that at which the work is done. Thus, in a well organized bureaucracy, the only objectives a manager can be personally responsible for are those relating to the activities of his or her subordinates. The objectives of the activity of that manager are in turn the responsibility of his or her superior, not the managers. How the superior decides to co-ordinate that manager's work with that of the other managers similarly reporting is the superior's business, not the managers. It is also the superior's prerogative to decide what the subordinates do, how much, by when and to what standards. In this setting MBO simply means that each manager has to be more explicit about the work he or she plans to get from subordinates. The superior then resets the plans as an explicit statement of the controls under which the subordinate manager will perform. The superior goes through the same process with his or her superior.

When a bureaucracy has completed the process of installing MBO the basic dynamics are unchanged. Each individual's activity is a pawn in some superior's objectives. Individual managers have objectives for getting work from subordinates but only job specifications for themselves. What has changed is the harshness of the climate as MBO naturally gives greater weight to the `bottom line' and other such measurable outcomes.

This increase in harshness might be justified if the introduction of MBO could be relied upon to yield something of the increase in efficiency that Drucker wrote about. It should be remembered that Drucker based his case on the assumption that the objectives would be appropriate and timely for the business the organization is in. It is difficult if not impossible for a bureaucracy to determine objectives that were `appropriate and timely'. MBO assumes that those engaged in the daily operations will identity the measures most relevant to those operations. The higher levels of management supposedly relate this information to that coming from other managers and to the corporate mission.

In practice, at every level up to and including the CEO in his relation to the corporate Board, the prime motivation of each person is to look good to their superior(s). Their concern is to be judged by objectives that they know they can easily manage. If tough measurable objectives are imposed on them then they will seek to get the numbers by cheating. If all else fails, shift the blame. All such tactics invite counter tactics and the organizational focus becomes on MBO as a mechanism for controlling individuals instead of being a co-ordinating mechanism for better pursuit of organizational objectives.

If organizations are first de-bureaucratized then MBO is both necessary and possible. (Of course, if MBO was not then possible the only alternatives to bureaucracy would be anarchy or arbitrary autocracy.)

There are still practical problems with introducing MBO to organizations that have moved to self managing workface groups. Something can be learnt from earlier efforts even though they failed to overcome the bureaucratic barriers.

First, it is always inadequate to set only one objective. Any work or service system takes many inputs and transforms them into one or more outputs, creating waste in the process. No one figure, ratio or index is going to capture all manageable aspects of that transformation. On the other hand, we cannot expect people to try to manage every theoretically relevant dimension of the process. In practice many dimensions can be treated as if `constant' or can be made such by automation. In practice we are probably looking at three to seven objectives for self managing work groups. Three seems to be the least number that can give a person a hands on feeling for an operating system and seven is the most that people can keep in mind at one time. A mnemonic device for an agreed upon set of objectives might make it easier for people to routinely operate with the higher levels of six or seven objectives. At the higher levels of management more objectives may need to be spelt out but if they are organized in levels, e.g. with respect to time span, there need be no more than seven at any level. In any case it seems wiser to aim for fewer objectives and negotiate more frequently about what those objectives ought to be. A large number of objectives encourages people to `duck and weave' about what has actually been accomplished.

Second, because objectives have to be negotiated between parties with separate interests, even though complemental, those objectives need to be ones that can be explicitly defined and objectively assessed. This does not warrant the assumption that the best objectives are those that are most easily measured. Relevant objectives cannot even be formulated unless an organization sorts out what business it is in and that is a qualitative statement. Given a mission statement that defines the business one is in, then one can get on with defining objectives and selecting measures that are sensitive enough to measure real changes but not so sensitive as to spark off false alarms or raise false hopes. As a guideline to selecting measures they should be checked to see that they are appropriate to:

- the business one is engaged in;
- the environment in which that business is being conducted;
- speed of feedback needed for the organisation's decision cycle time;
- the range of responses available to the organisation.

Third, it is desirable to explicitly identify on a grid all of the sections of the organisation that share each of the objectives. This may indicate the need for different co-ordinating and information procedures. At least this procedure should lessen the chances of important responsibilities just `falling through the cracks'.

Fourth, there is an important distinction to be made between maintenance objectives and change objectives. The former establish responsibilities to maintain standards whilst the latter usually entail the development of new ways of working. To enable people to get on with the former it is common practice to set up special temporary project teams or task forces to implement the change objectives. The understanding behind this is that once established, responsibility for those objectives will be passed over to those sections currently charged with the maintenance objectives. This may be a quick way to develop new ideas about organization and procedures but it almost guarantees a prolonged and messy `passing over' period, with a high risk of failure. Initial progress probably will be slower if responsibility for the change objectives is given to the same sections as have responsibility for the maintenance objectives. However, it locks the conflicts into individuals and groups, with them responsible for resolving the conflicts, and prevents the conflicts being turned into inter-group conflicts, with all that that means for personal relations, blocking and sabotage.

Fifth, a distinction needs to be made between operational, managerial and corporate objectives. This distinction reflects the natural hierarchy of *functions*. The distinction does not imply any necessary hierarchy of statuses. Managerial and operational objectives must remain within corporate objectives only so long as they are sustainable. When they are not, those responsible for formulating corporate objectives must respond to the experiences of the managerial and operational levels. Similarly for the relation of managerial and operational levels. Further, it in no way follows that those capable of exercising the authority of competence at one level has any such authority at other levels. The hierarchy of functions dictates complementarity but not subordination.

Sixth and last, it is necessary to come back to what was implicit in the introduction. At that stage I pointed to the fact that it had proven next to impossible to implement MBO in bureaucratized structures. The clear implication is that if organizations are to define objectives appropriate to the management of self managing groups then those organizations need to be organized in non bureaucratic ways.

This point was made clearly many years ago by Ralph Kingdon in his study of matrix organizations. He studied R&D teams in the US defence industries. Those teams tended to be organized as self managing groups but were constantly frustrated and in conflict with their organisations which were bureaucratically organized, despite the fact that these R&D groups were the leading edge for the corporations' profit making. Kingdon noted that the conflicts seemed inevitable. One can go further and state that no organization can maintain its integrity if its workforce is organized according to one system principle and its management to another.

If an organization decides to advantage itself by introducing self managing principles into its workforce then it would seem that they should reorganize their management structure according to the same principles. As the table of differences between the two system principles shows, the differences are not trivial.

Table 1. Characteristics of the New and Old Organizational Paradigm

Basic Design Principle	**Redundancy of Parts**	**Redundancy of Functions**
Unit of Analysis	maximum task breakdown, narrow skills; building block is one person one task	multiskilling, `whole task' grouping; building block is a self managing group
Organizational rules	technological imperative - people	design for `man-machine'

	added on. Aim to design people out of the system	complementarity and hence for optimal staffing levels
	co-ordination and control decisions located at levels above the workers	co-ordination and control located, as far as possible with those doing the work
	aim at total specification of responsibilities and authorities	aim at minimum critical specification of responsibilities and authorities
Typical Outcomes:		
Sociotechnical	fragmented sociotechnical system resistant to change	dynamic process of joint optimization of the sociotechnical system
Cultural	autocratic	democratic
Psychological	alienation	involvement and commitment

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