

Making MBO Work — The Missing Link

“the greatest value from management by objectives and results comes from its use as a form of participative management”

George L. Morrissey

Management By Objectives (MBO) has been less than the resounding success in some organizations that its advocates, myself included, predicted. While there are many reasons contributing to such experiences, the one “missing link” that seems to crop up most often is a failure of key managers to recognize that it is a *human*, not a mechanical process.

Many organizations have implemented MBO as though it were an administrative procedure or reporting system. Where that has happened, it should not come as a surprise to learn that there is something less than wholehearted commitment on the part of most managers in the organization. It is conceivable, of course, that introduction of the steps in this process in an arbitrary, mechanical

manner may produce a higher level of performance on the part of people further down in the organization . . . if for no other reason than someone “up there” finally told them specifically what was expected. However, that is not where the real payoff comes from the use of this process.

The greatest value from Management By Objectives or, as I prefer to call it, Management by Objectives and Results (MOR), comes from its use as a form of participative management. In that way, the steps in the MOR process become the basis for effective management communication throughout the organization. This article will have two parts. The first will deal with some of the basic benefits that can come from using the MOR process as a form of

participative management — benefits that have economic as well as social advantages. The second part will identify several specific methods for effective MOR communications — methods that can be used selectively, adapted and practiced by any manager in any organization, with or without a formal MBO system in effect.

Benefits

1. *It encourages commitment rather than compliance.* Compliance implies “doing it because I have to.” Commitment means “doing it because I believe in it.” The boss can demand compliance, but not commitment, and compliance usually results in “doing what has to be done, but not much more.” Commitment is a voluntary action and, more often than not, comes in

direct proportion to the amount of involvement the individual has in the decision-making processes. The more influence I feel I have in determining the things that will affect me, the more likely I am to be committed to their successful accomplishment.

Conceptually, the major difference between an objective and an assignment lies in who makes the determination. An objective is something I set for myself, usually with substantial input from my boss, my subordinates and others. An assignment is something that is given to me by my boss with the expectation I will carry it out as specified. There is a place for both. Obviously, it is neither practical nor necessary to negotiate an agreement on everything that has to be done. However, if we want real commitment from our people, we've got to give them "a piece of the action." The managerial risk is somewhat higher, of course, when we allow others to exercise their decision-making abilities. When we consider the potential payoff from substantially higher levels of performance, a realistic cost-benefit analysis makes such a risk look like an outstanding investment.

2. *It encourages innovation balanced by reality.* By challenging those who are significantly affected to make some inputs into proposed courses of action, we can tap in to the creative potential that lies within everyone. Conversely, highly innovative ideas are of value only when they can be achieved. Getting reactions and suggested modifications from those who have to get the job done can help to keep our planning efforts in a realistic perspective.

I am frequently asked if it is more effective to start the MOR process at the top, middle or bottom of an organization. My semi-facetious answer is "Yes!" It can be started at any level where there is a responsible manager who wants to make it work. A successful ex-

perience there can radiate in all directions. More specifically, of course, where there is a high level of personal *and continuing* commitment on the part of members of top management, the chances for successful organization-wide application are substantially higher.

"Yo-Yo" Pattern

I visualize the formation of organizational objectives, ideally, as following a "yo-yo" pattern. Top management starts by shaping "a big fuzzy ball" that identifies major concerns and a general picture of the direction it wants the organization to follow. This "fuzzy ball" is then "rolled down the string" allowing those with a key responsibility to help shape it. By the time it is "rolled back up the string," it will look somewhat different from when it started. Members of top management now have the benefit of inputs from all those who can make it work or not work and, with this added data, should be able to set a challenging, yet realistic, set of organizational objectives much more effectively than if they had done so in isolation.

3. *It enables every manager to be President.* Before you start pointing fingers at "them," remember that "top management" is something of a euphemism. It does not necessarily represent that small select group that sits on the uppermost point of the total organizational pyramid. You, also, can be "top management," regardless of your level in the organization. This can be approached with what is frequently referred to as the *Unit President Concept*.

Consider yourself to be president of your "company" — meaning that part of the organization that you head up, whether that be a major department with hundreds of employees or a small operation of two or three people. Your boss represents the Board of Directors. Your job is to manage your "company" the best way you

know how. All you need from the Board is a license to do it your way. Most Boards are happy to allow their President to manage the "company" in any legal and ethical manner that achieves them the results they want.

Therefore, if the "fuzzy ball" referred to earlier comes down to you from higher management levels, you can add your inputs together with those from key people in your unit. If you do not have that opportunity to significantly influence higher level objectives that affect you, you can still create a "fuzzy ball" of your own. Even if most of your "objectives" appear to be "cast in concrete" by the time they reach you, there is still, normally, a great deal of latitude (more than most managers are willing to admit) in determining how to achieve them. By defining the outer limits, you can still make it possible for your subordinates to influence what affects them.

4. *It encourages negotiation and mutual agreement.* In most objective-setting discussions, each participant comes in with a somewhat different perspective related to basic information, importance and approach. This should be seen as healthy. Complete agreement, without some dissenting points of view, could lead to organizational stagnation. Ideally, objectives agreed to will represent the best thinking of all concerned and will be better than what any one person would have come up with individually. While differences should be aired openly, negotiation must lead to an agreement that all participants understand and accept.

5. *It reduces or eliminates the need for the word "can't."* When a new suggested objective or assignment comes along, there is a natural temptation for the manager with a full workload to say, or at least think, "I can't do it!" By having a realistic set of objectives, particularly if they have been costed out properly, the man-

ager is in a position to make trade-off decisions or recommendations. Since it is virtually impossible to anticipate all requirements likely to come along, it is almost inevitable that a manager will be faced with a re-evaluation of priorities at some point during the projected period of time.

In fact, it is practically a certainty that actual accomplishments will be somewhat different from what was forecast at the time objectives were established. That does not invalidate the forecast. What the forecast does accomplish is to provide us with a more valid rationale for shifting directions if later requirements suggest that to be necessary. It means, however, that if we do shift, it is with full awareness that we are shifting and that there is a good reason for doing so. Furthermore, a clear change in direction calls for a renegotiation of the original agreement. If a standard pattern is established that new "objectives" or assignments that come along are expected to be accomplished *in addition* to those in the original agreement, it is an open invitation for the assignee to play games with the original agreement in anticipation of the inevitable.

On the other hand, if it is clearly understood, at the time of the original agreement that any significant changes are subject to renegotiation, the subordinate manager can say to his or her boss, "I can meet the new requirements and this is what it will cost." It may require the manager to modify, postpone or cancel some objectives in the original agreement. By once again applying the concept of cost-benefit analysis, we are able to focus more of our attention on what we *can* do rather than what we *can't* do.

6. *It provides a rational basis for review and feedback on progress toward objectives.* In many, if not most, organizations, reviews of progress during the year tend to

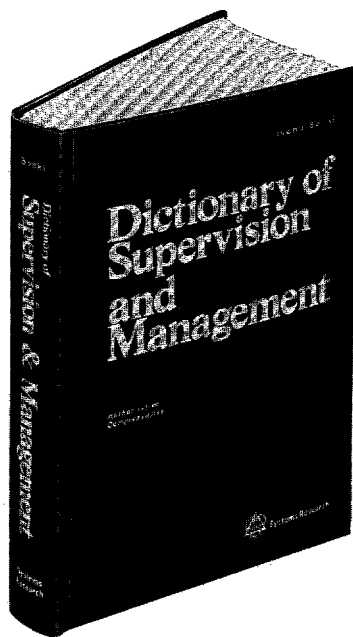
be ceremonial "How are things going?" "Fine!" types of affairs, or oriented toward individual problems — usually after the problems have occurred. By following the recommended practice of agreeing on and adhering to a progress review schedule, there is a built-in mechanism for making sure that both the boss and the subordinate are brought up to date periodically on what is happening related to total performance. Furthermore, such a review can be focused on specifics rather than generalities.

7. *It encourages inter-group communication and teamwork.*

The various steps in the MOR process (roles and missions, key results areas, indicators, objectives, action plans and controls) tend to bring to the surface areas where open communication and cooperation with other groups or individuals are both necessary and desirable. They also tend to highlight areas where conflict or potential conflict exist in such a way that they can be more readily dealt with and resolved. There is conflict in every organization. Managed effectively, it can be one of the most powerful tools available for creative growth. Unmanaged, it can be one of the most destructive. A necessary ingredient for managing conflict effectively is the ability to break complex operations down into their component parts and to focus on the specific contributions various individuals or units must make in order to achieve results. That's Management by Objectives and Results!

8. *It provides a common language base.* One of the problems that separates management from most of the other accepted professions is a lack of a common vocabulary. Mention the words accountability, responsibility, authority, function, activity, objective or control in a group of a dozen managers and you are likely to get 12 different interpretations, any of which could be correct. A common expo-

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sure of all managers to a specific management approach, MOR or any other, should reduce the potential for semantic confusion among those who have to communicate with each other on management concerns. The terms used here are certainly not the only ones that could be applied, but they are appropriate to the management processes being described. Their use among people recognizing them in a similar context inevitably facilitates effective communication.

9. *It provides a tangible rationale for budgeting/funding requests.* It is virtually a universal practice now for organizations that "hold the purse strings" to insist on hard justification for proposed expenditures, even when supporting ongoing efforts. This applies whether we are talking about higher level management, corporate or parent company headquarters, congressional or legislative committees, approving agencies, foundations or local boards of directors. Irrespective of the budgeting system used, the management process of breaking an operation down into its component parts, together with an evaluation of both the benefits and the related costs, can provide the kind of data needed to support such budgeting or funding requests.

There are many other communications advantages that can come from applying Management by Objectives and Results in an organization, particularly when a participative approach is used. We have identified some of the more critical ones here. However, they are rather academic unless they can be put into action. So, next, let's see how we can make the communications work.

Effective MOR Communications

In examining the various methods of using Management by Objectives and Results (MOR) as a communications medium, we will approach it from five different per-

spectives: *individual* (one-to-one), *intra-unit* (team applications), *inter-group* (both internal and external to the total organization), *organization-wide* (particularly top management role) and *support or staff units* (special concerns). Each of the many methods to be identified here will be dealt with very briefly in order to highlight the various options available. We recognize, of course, that an entire book could be written covering this area alone.

1.

Individual

Individual (one-to-one) is the most frequently-used application of the MOR process in which an individual manager uses part or all of the steps (roles and missions, key results areas, indicators, objectives, action plans and controls) to communicate on a one-to-one basis with the boss and/or each key subordinate. Place yourself, mentally, in either the boss or subordinate role in studying this application. The same process applies, regardless of the side of the desk on which you are sitting.

a. Negotiation

1. *Roles and missions* (unit charter, purpose, job description — any statement that establishes the nature and scope of the ongoing effort to be performed within the unit) should be drafted or, if one exists, reviewed and modified by the subordinate, and agreement reached with the boss as a foundation for all work the subordinate will be held accountable for. Any unresolved questions should have objectives set for dealing with them. Both should have copies of final agreement for reference.

2. *MOR Agreement* (key results areas, indicators, objectives), or whatever parts of it are to be applied (substitute whatever word labels are appropriate if a different approach is being followed), should be drafted by the subordinate, followed by discussion, modification

as appropriate and final agreement reached with the boss prior to the start of the forecast period which the agreement is to cover. Both should have copies of final agreement for reference.

b. Problem discussions should be initiated by either the boss or the subordinate as soon as problems, current or potential, related to negotiated agreements become apparent to either party. Discussion should focus on what the problem is and what should be done to take care of it — not on fixing, or trying to escape from, blame for the problem.

c. Progress reviews are conducted periodically during the forecast period, preferably at pre-determined times (monthly, bi-monthly, quarterly) established as a part of the agreement. These should be seen as an opportunity for the subordinate to bring the boss up to date on everything, good and not so good, affecting the subordinate's area of accountability. The written review document serves as a logical review document to ensure that the total picture is covered. Discussion of specific problems, when brought up during a progress review, should be seen as secondary to a mutual assessment of the current situation as related to progress toward objectives.

d. Renegotiation of unit roles and missions and/or parts of the MOR Agreement should take place at any time there is a significant shift in priorities, organizational direction or uncontrollable circumstances that impact heavily on the subordinate's ability to meet objectives (for example, loss of key personnel, unanticipated shortages of parts, etc.). In order to encourage prudent risk-taking on the part of subordinates, there must be an "escape hatch" for dealing with the unexpected. Otherwise, the subordinate will only set "safe" objectives.

e. *Performance reviews* are conducted at or near the end of the forecast period in the agreement. A one year time period is the span that is most frequently used in organizations. However, six month or quarterly spans are not uncommon, particularly at lower levels in the organization. Although related, this is different from performance *appraisal*. Our concern here is with assessing total performance against agreed-upon objectives for the purpose of improving our effectiveness in the next forecast period, not for coming up with a "score card" on an individual.

While, obviously, this performance will be a major factor to be considered when appraisal time comes around, the two should not be tied together or the value in future planning is liable to be reduced, if not lost altogether. It is

entirely appropriate for a new agreement to be negotiated at the same time as, or shortly after, completion of the performance review, using that analysis as a partial data base for setting new objectives. At any rate, unless there is a clear case of incompetency, this should not be seen as a time for recriminations or excuses but, rather, a learning period for both parties leading to increasing the managerial effectiveness of both of them.

2.

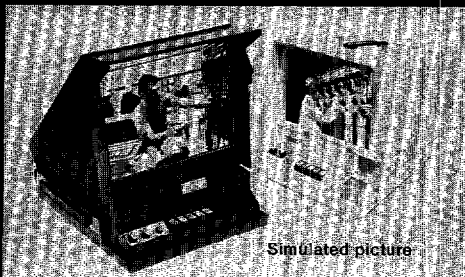
Intra-Unit

Intra-unit (team applications): Ironically, the two kinds of groups that seem to function most frequently and most effectively as a team in many organizations are the small group of senior managers who make up the top management

group at one extreme and small groups of professional and technical specialists reporting to a first line supervisor at the other. The reasons for the latter are fairly obvious since most such groups are built around a similar or related set of skills and something of a common purpose. The top management group, on the other hand, has to be somewhat schizophrenic in that its members, in most cases, are both individual heads of major functional units and members of the policy-making, strategic planning group for the total organization. It is in this latter role where this group is more likely to operate as a team.

While the same dynamics can and frequently do work at any level in the organization, there tends to be greater diversity of both interest and purpose at mid-

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de levels which makes operating as a team more difficult. My reason for raising that issue, however, is to point out that, regardless of the level in the organization, the application of Management by Objectives and Results as an intra-unit or team effectiveness process is, essentially, the same. Differences are, primarily, ones of scope and magnitude.

a. Roles and missions determination frequently serves as an effective initial team effort. Identifying both the philosophical and operational issues that must be resolved at the unit level provides an opportunity for group members to share their perceptions and their feelings about key factors that affect the way they work together. While this may be a time-consuming effort at the outset, it gets at issues that are often taken for granted and rarely discussed. There are, generally, far more differences in points of view among members of a so-called team than most of them would predict. (Try asking each to write, independently, their answers to the questions: What business are we in? Why do we exist? Who are our customers? Then, have each read them to the rest of the group. Don't be surprised if there are some rather substantial variances.)

This, perhaps more than any other step in the MOR process, is an example of where the process of getting there is far more critical than the final product. While the result should be a working statement of roles and missions that all members will subscribe to and support, the "clearing of the air" on controversial or misinterpreted issues is essential for continuing team effectiveness.

A retreat or planning conference away from the normal business location with substantial time flexibility is usually much more conducive to open discussion and resolution. A third-party facilitator or consultant can be particular-

ly helpful here. Also, while agreement on a final statement might come as a result of an extended meeting, it is more likely to require two or more such meetings before an acceptable draft is developed. The cost, in terms of the time of people, may be moderately high. However, the potential benefit from having all members of the team pulling in essentially the same direction is phenomenal, making it one of the best investments the group could make.

One caution: don't allow the group members to get so involved in endless semantic discussions on specific wording to be used that the conceptual value is lost. You are far better off coming out relatively quickly with an imperfect statement that can serve as a working tool, with an agreement to re-evaluate and modify it after a given period of time, such as six months.

b. Key results areas, indicators and objectives for the unit (or their equivalent in your terminology) can be developed from among team members whose individual contributions form a common thread. These could incorporate only those areas where they will be functioning as a team or they could be expanded to cover the total contributions of the unit. A frequent variation on this is where the unit head uses other members of the team as a resource in the determination of his or her own key results areas, indicators and objectives. In the case of the top management group, the corporate-level objectives are likely to be finalized through such a process.

c. Action plans and controls are logical areas of participation for team members where they play partial roles in the achievement of unit objectives. Since there are, normally, several alternative ways of achieving an objective and, in fact, many action steps will become objectives for subordinates, their active participation at this

stage becomes crucial. Even where the "real world" limits the amount of impact they may have on the objectives themselves, they can and should have some influence on how those objectives are to be achieved. The same thing applies in establishing controls. In addition, since we should be looking for the most economical and effective means, team members can help devise common control methods that will serve all their needs, reducing or eliminating duplication and wasted effort.

d. Intra-unit critique is an extremely powerful communications tool where there is a relatively high level of trust among group members. Here, in addition to the development of total unit efforts, each participant also uses the rest of the group members as a sounding board for any or all of his or her MOR Agreement. Such participation could range from simple feedback and helpful suggestions up to and, possibly, including group approval as a requirement. Furthermore, this helps to identify areas where mutual support is needed or where potential conflict exists, in such a way that they can be dealt with positively.

e. Intra-unit review is an extension of the intra-unit critique in that it encourages one or more of each individual's progress reviews to be conducted with the group rather than the boss alone. This serves a dual purpose of providing a broader feedback base and keeping other group members informed on what is happening. To be effective, the frequency of this kind of a review should be limited to keep such meetings from turning into ritualistic "show and tell" exercises.

3.

Inter-Group

Inter-group (both internal and external to the total organization): It is a rare organizational unit whose work does not seriously

affect or is not heavily affected by, the work of several other units. These could include peer units in the same organization, support organizations, customer/client/user groups, suppliers, unions, comparable units in other organizations, etc. The concerned unit should clearly identify those others with whom a significant amount of close cooperation and communication is essential. Then, using one or more of the following means, work on improving it.

a. Roles and missions, MOR Agreements, and/or selected objectives should be shared with other units that are significantly affected. This sharing could range from a detailed discussion, analysis and negotiation between the unit managers and key members of their staffs to a simple exchange of documents accompanied by whatever clarification may be required. The purpose is to keep both units aware of mutual support needs so that neither is surprised by the other.

b. Action plans and controls should identify other units affected, what will be done in connection with them, and who will be accountable for seeing that it gets done. In many objectives, a modest amount of advance communication or negotiation with other units could save vast amounts of wasted effort because of inadequate or late support from these other units, not to mention the inevitable recriminations and hard feelings.

c. Conflict resolution between units can be dealt with much more openly and objectively when the focus can be on specific areas of influence, objectives or action plans. There will be conflict between units. The truly effective manager has learned how to turn that conflict into a positive, rather than a destructive, force. Many of the approaches to conflict resolution suggested in the technology of Organization Development will work

even more effectively where there are clear statements of roles and missions, objectives and action plans in existence.

4.

Organization-Wide

Organization-wide (particularly top management role): As mentioned earlier, members of the top management group have to be somewhat schizophrenic since they wear at least two separate "hats" in the organization. When they are filling their roles in organizational policy-making and strategic planning, they must relate more directly to factors that impact the total organization, even when that action may be at the expense of concerns within the functional units they head up. In the long run, of course, such a posture should increase the value and effectiveness of their functional units as well. Organization-wide implementation of Management by Objectives and Results could be an example of such an application.

a. Corporate roles and missions determination and interpretation is a responsibility of this group. By first identifying the critical philosophical and operational issues that need to be resolved, the top management group should formulate a tentative statement of roles and missions for the total organization, probably using a retreat or planning conference away from the normal business location, as suggested under Intra-unit (team applications) earlier. This tentative statement can then be tested with other managers in or out of the organization, modified as appropriate, and put into final form. This should then be disseminated throughout the organization, preferably with interpretive discussions conducted by members of the top management group who were involved in its formulation. The roles and missions statement itself plus the interpretive discussions with members of top management can go a long way toward opening

up communications throughout the hierarchy in addition to clarifying organizational direction and the expectations of top management.

b. Corporate objectives can be formulated in a similar manner to corporate roles and missions, except that a more organized approach to getting inputs from others is necessary in order to validate the objectives. The "yo-yo" pattern suggested in the first part of this article fits such an organized approach conceptually. Practically, such an input process must be facilitated in a short time span, preferably 30 days or less, if it is to work effectively.

Corporate objectives should reflect both the short term (usually related to the fiscal year) and the long term (usually beyond the fiscal year — using a rolling five year plan, for example). Once they are

"... an extraordinarily important document. . . . Any social system that says to a large slice of its young people, 'There is no room for you!' and to the overwhelming bulk of its elderly, 'You are constrained to suffer 15 years of pre-death!' is an abomination."

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finalized, corporate objectives should be disseminated throughout the organization as quickly as possible, with top management interpretation as necessary, so that unit managers can prepare their own objectives in support of, or consistent with, those of the total organization.

c. Documentation and reporting systems are necessary ingredients of an organization-wide application of MOR. This does not mean that it has to become another "paper mill." It can, if managers allow it to, but that will relegate it to another procedural exercise rather than a dynamic management process. Documentation and reports that go to top management or that are distributed throughout the organization should be limited strictly to those that are of direct concern to those receiving them. So-called "information copies" tend to multiply like amoebas, particularly in large organizations.

By and large, supervisory control must be built on a relationship between a manager and his or her immediate superior. This means that most of a given manager's reports should go no further than one level above and one below. Top management can control the "paper mill" by limiting their documentation and reporting requirements strictly to those things in which they must become directly involved. By doing that, they are also communicating a very powerful motivational message — that they trust their managers to manage.

d. Periodic communications from top management to the rest of the organization can and should be a regular part of an organization-wide MOR application. This would include progress reports on certain corporate objectives and information on new developments affecting corporate roles, missions and objectives. By building this form of communication around these

corporate documents, managers throughout the organization have a common frame of reference and can feel more a part of the total operation.

5.

Support or Staff Units

Support or staff units (special concerns): Obviously, the same factors described above in relation to other organizational units apply equally well to the management of a support or staff unit. However, there are two special concerns related to MOR, one that would apply to all such units and one that would apply to those with a specific organizational responsibility related to MOR implementation.

a. General support services are those services provided to other units within the total organization where, in reality, they are the unit's customers whose needs must be satisfied. Consequently, many support units see themselves largely in a reactive mode of operation — for example, the personnel unit that responds to requests for filling staff vacancies or the data processing unit that programs and produces a new analytical report when requested. While a certain amount of reactive service is inevitable, an increasing number of support units are adopting a much stronger anticipatory posture.

George Odiorne, in a recent address (ASTD Region 8 Conference, Scottsdale, Arizona, October 1, 1975), suggested that staff organizations should be setting many of their objectives six months in advance of the line organizations they serve, so that their services are readily available when they are needed, not lagging behind. In order to do that, many support units should have a key result area called something like "Anticipated Needs Assessment." Objectives flowing out of that would relate to the development of early-warning information systems, involvement in advance planning efforts of their

customers, and staying ahead of the state-of-the-art.

Furthermore, support organizations that set their objectives in anticipation of, rather than in reaction to, their customer's needs are in a much stronger position to influence the direction those needs should take.

b. MBO advisory services are those informing/training/consulting/reviewing services designed to assist managers in the organization in the implementation and maintenance of MBO. These services are frequently provided by organizational units responsible for training, personnel, organizational planning/development, administrative services, or by special MBO support groups. Such groups can perform an extremely valuable service provided they see their role as primarily advisory or supportive, *not* administrative.

Providing information designed to increase understanding of the process as it is being applied, conducting or providing training for managers in the necessary skills, assisting individual or small groups of managers in applying the process to their own operations, and providing a sounding board to help managers evaluate and more sharply define their own objectives, can make a major contribution to effective MBO implementation. Where such groups have taken on the role of administering, directing, approving, screening or monitoring the MBO-related efforts of other managers in the total organization, the result has been, more often than not, the creation of a new bureaucracy which either usurps the responsibility that managers should accept for themselves or makes the MBO process virtually impotent as a positive managerial tool. Part of the mission of such a support group should be to work themselves out of a job.

The MBO Adviser concept, as introduced in England and

practiced in many other parts of the world, advocates the selection of individuals with line management experience for a limited-time assignment in that role, following which they will be returned to a line management position. An appropriate indicator of effectiveness for an MBO advisory group, after initial implementation, might be "number or percentage of managers satisfactorily practicing MBO without our assistance." The basic mission of such a group should be to help managers perform their own management work better, not to do it for them.

In Summary

Management by Objectives and Results (MOR) is a human, not a mechanical, process. Consequently, the six identified steps (roles and missions, key results areas, indicators, objectives, action plans

and controls), or whatever variations on those are applicable in the process you are following, must be seen as providing a means for increasing the understanding and commitment of the people who must work within that framework. Effective communications at every step along the way provide the catalyst for bringing that about.

In the first part of this article, we examined many of the significant benefits that can come to an organization that practices MOR as a form of participative management. Next, we looked at several different ways in which MOR can be used to increase the effectiveness of organizational communications. Please recognize, however, that the ideas presented here are designed more as stimulators than as prescriptions. Only when you have adapted it to your own partic-

ular style and situation will it work for you. USE ASTD

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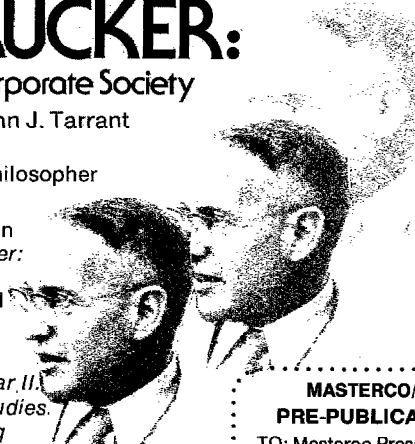
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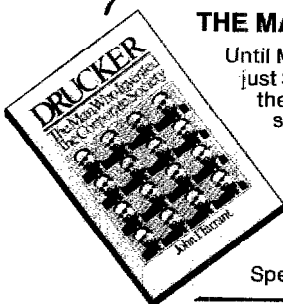
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