

MANAGEMENT BY OBJECTIVES: A CRITIQUE

*advocacy for a shift
from an adversary psychology
to a cooperative psychology*

Two well-defined positions on MBO tend to establish the boundaries of our discussion and points of reference for examining our assumptions and new alternative modes of thinking. These are the positions of George Odiorne and Peter Drucker.

ODIORNE POSITION

First is the classical one enunciated by George Odiorne.¹ Odiorne holds that MBO is a process whereby superior and subordinate managers jointly identify common goals, define each individual's major area of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contributions of each of its members. Odiorne would establish measures of organizational performance and definitions of unit measures and individual measures. He places his emphasis on economic survival after which other goals may follow.

DRUCKER POSITION

Peter Drucker contends that the manager's authority is grounded in the objective responsibility of the job, based on performance standards which are objective and measurable.² He contends that objectives are needed in every area where performance and results directly and totally affect the survival of the business. He defines these areas as market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitudes, and public responsibility. He contends that the purposes of MBO are to organize and explain the whole range of business phenomena, to test those statements, to predict behavior, to appraise the soundness of decisions, to enable practicing businessmen to analyze their own experiences and improve their performances. He adds that the MBO program should spell out what performance the man's own unit is supposed to produce, what contribution he and his unit can expect from other units toward attainment of its own objectives and that the emphasis should

be on self-control, that is, on the feedback of information to the man and that MBO should not be used as a weapon for superiors to control him.

Drucker's conception is based on an assumption that there are three jobs of management: managing a business, managing managers and managing the workers and work.

He holds several premises which should be understood in order to evaluate his conception of MBO. The first is that an enterprise is composed of human beings. Its performance is the performance of human beings, and a human community must be founded on common beliefs and symbolize its cohesion in common principles. If such considerations are intangible, management must make them tangible by its deeds.

His second premise is that action is always aimed at results in the future. Management alone has to live always in both the present and the future. Practically every management decision is a long-range decision — 10 years is a rather short time span these days. To deal with the future, one must concentrate on tomorrow's managers.

His third premise is that in the last analysis, therefore, managing a business always comes back to the human element — no matter how sound the business economics, how careful the analysis.

COMPARISONS

Comparing these two positions, it is easy to see that the first is mechanistic. It leans heavily on mechanics and has a heavy downward emphasis on subordinates. It intends by its assumptions to see that the subordinate reaches economic goals under the guidance and direction of his superior. It assumes that they will formulate goals together which in practice means that the subordinate usually has little choice and that his goals are merely subsidiary definitions of those of his superior.

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Furthermore, with the heavy emphasis on measurement, those elements of the task which cannot be measured are necessarily given less attention. When one has both measured and unmeasured results, those upon which figures can be placed will get the major attention. Thus, no matter what is said about the qualitative aspects of the job, the Odiorne and similar positions run the risk of hoisting the subordinate on a statistical petard and destroying, by omission, those qualitative aspects which give business character, soul and personality.

The Drucker emphasis is much more realistic but poses serious problems about measuring long-range goals, qualitative performance and the human elements which are difficult to measure such as manager development and public responsibility.

Despite the problems of measuring these dimensions, they are nevertheless enunciated and considered in MBO. Further, Drucker makes the position clear that MBO data should be fed back to the manager for self-control and not for control devices by his superiors.

MOTIVATION

Thus we see distinct motivational assumptions behind MBO. In the Odiorne position, the assumption is that people are motivated by rewards and punishments. The emphasis is on those things that are measurable. Presumably, if the subordinate attains them he will be rewarded; if he does not, he will be punished, perhaps even by discharge. Lip service is given to all other aspects of performance, and this means that as objectives are set ever higher the man's task becomes narrower and his pace becomes faster and faster.

Another assumption in the Odiorne position, as it relates to the specific individual, is that he alone is responsible for what he does and he does not need support to accomplish his task.

In contrast, Drucker spells out the right of the man to know what contribution he and his unit can expect from the other units. This should be included in the statement of objectives so that one can examine the degree to which others' obligations have been fulfilled or have prevented attainment of goals which he had set.

Odiorne further assumes that there can be an objective appraisal of results in which personal feelings are eliminated. That is impossible. It is better for one to be able to specify his personal feelings and work with them and with the feelings of the subordinate. Certainly, how a man feels about another's performance is an important element in the judgment of that performance. If people have different styles in obtaining the objectives, the difficulties which ensue may result from the way in which things are done rather than the results obtained.

APPRAISAL

Odiorne assumes that judgment in appraisal can be made without guilt. As I have indicated in a 1964 book,³ appraisal is the most difficult of all managerial processes. It is most often distorted by the feelings of guilt on the part of the supervisor who perceives appraisal to be an aggressive act likely to destroy the subordinate. This issue is not at all taken into account in any assumption that MBO can be truly objective. So long as the appraisal cannot be done objectively, no matter what the circumstances, the MBO process itself is inevitably affected by the manner in which one is appraised. Far better, in my judgment, is to lay such issues out on the table and to be aware of their influence.

RIVALRY

Neither Odiorne nor Drucker deal with a further psychological circumstance: the degree to which MBO and the subsequent appraisal system are contaminated by the rivalry of the superior and the subordinate. Although superiors are

charged with developing their subordinates, it is nevertheless true that superior and subordinate rise through the same hierarchy and the superior often fears that the subordinate will take his place. Even if he does not have such a fear, certainly many superiors, being human, will have feelings about the possibility of being exceeded by their subordinates. The subordinate's rivalry with his superior inevitably enters into their discussion about objectives and the degree to which both judge their accomplishments. Nowhere in the whole process, as discussed by either man, is attention given to the pervasive problem of rivalry, the need to prepare managers for dealing with it in relationships with their subordinates, and the ways in which contamination of the relationship might be avoided by making their rivalry conscious and open for discussion.

WHOSE OBJECTIVES?

An even more crucial assumption, one I have discussed in a *Harvard Business Review* article, "Management by Whose Objectives?,"⁴ is the relationship between a man's personal objectives and those of organization. The Odiorne position, and to some extent the Drucker position, assume that the organization's objectives are truly those of the individual and by setting his own objectives within those of the organization, he makes a formal commitment. They assume further that having made such a commitment the man will strive to attain those objectives and therefore be so motivated. There is a degree of truth in this, particularly when there is a back up by a threat of punishment if he does not obtain his objectives and the potential for reward if he does. However, what is missing from this formulation is the man's own personal objectives. That is, where does he want to go with his life? The most powerful motivation for any person is his wish to be able to like himself.⁵

Each person has an ego ideal, a picture of himself at his future best which he

strives to attain. This internal road map is based on the earliest expectations which parents and other respected figures have held for him, together with his experience and demonstrated competences. It is somewhat modified in the molding experiences of growing up. The ego ideal is crucial to a person's self-esteem, for self-esteem varies inversely with the gap between the person's ego ideal and his self-image. When we behave differently from those we like, we become angry with ourselves. Our guilt increases with our "misbehavior." As it does, our self-esteem is lowered.

The ego ideal changes as one grows older and seeks to fulfill many of the ideals he held earlier, and he changes his values in accordance with his experience. If a person does not have the opportunity to talk about his unfolding ego ideal, then he is unable to formulate personal goals and to relate those personal goals to organizational goals. Therefore, the assumption that he will carry out organizational goals with enthusiasm is a fallacy. He can do so only to the extent that they complement and further his own personal goals. A man's personal goals should be discussed in appraisal so that, to the extent they are discussed, they can be compared and contrasted with the organizational goals. If they diverge too broadly, a person would ordinarily have to seek other work, certainly another job in the same organization. When such discussion between superior and subordinate is legitimized, the subordinate no longer needs to play a confidence game, leading the manager to believe that the organizational goals are truly his, nor does the manager need to play a manipulative game with the subordinate.

SELF-ESTEEM

The whole relationship is far more open than most such relationships. Failure to examine a man's personal goals with him, therefore, imposes organizational goals on top of invisible personal goals and leads to only partial commitment to organizational goals and to dissipation

of energy both in playing the confidence game and trying to compromise the personal and organizational issues from which none of us can escape.

The Odiorne position assumes that the man does not need to have an effect on what goes on in the organization. Drucker points out that at least he ought to know what others owe him in order to get his work done.

It is fundamental that a man likes himself to the degree to which he feels he has control over his own fate. There is ample evidence to indicate that the lower one goes in the organizational hierarchy the greater the incidence and severity of symptoms of emotional illness. The less control a man has over his own fate, the less he feels an adequate level of self-esteem and, therefore, the greater his depression, and as a consequence, symptoms appear. In a reward-punishment structure, a man has practically no control over his own fate. It is decided for him by others. That is especially true if MBO involves only a part of the organization's objectives, meaning that he is only a piece of his boss's action and is whipped by his boss to attain it.

While Drucker indicates the need for support, he fails to carry forward the underlying psychology of the individual and his personal requirement that he exercise control over his own fate.

MBO in both the Odiorne and the Drucker positions misses the essential element of what Drucker himself advocates and what I believe is essential, namely the essence of human motivation. Personality is a keynote in both theses despite the fact that Drucker argues for a more personal orientation to appraisal.

GOALS AND PURPOSES

However, if we treat Drucker's point seriously then we need to be concerned not only with goals but more importantly with purposes. Goals derive from beliefs and purposes which are common-

ly held. At least those goals which motivate men to work together have this kind of a base. In essence, there is only one way to hold an organization together by means of spontaneous commitment of its members — through their identification with organizational purpose. An organizational purpose becomes an organizational ego ideal, that is an unfolding map for organizational attainment which has either explicitly or implicitly within it an image of the organization at its future best. When such a statement of purpose and an image of organizational ego ideal is expounded, people have the opportunity to identify with that ideal and to modify it in keeping with their own experiences as the organization evolves.

In that sense one can accurately define what contribution he can expect from the organization to support his efforts to attain that ideal and what he can expect from others. It then becomes possible to weigh these expectations in terms of the contributions one is expected to make to the long-range goals of the organization and the development of people to help attain those goals. Without such a definition of purpose and organization's ego ideal, it becomes almost impossible to evolve measures of contribution to long-run perpetuation of the organization and to measure one's contribution in the form of his development of others. Thus the concept of organizational ego ideal is not merely a psychological theory but one of crucial importance to organizational perpetuation which underlies not only MBO but all management philosophy.

To return to the human element which Drucker emphasized, we must have a dual focus in MBO on the goals and purposes of the organization as well as the individual. The concern of management in implementing MBO is largely one of setting man to organization and vice versa for the purpose of contribution to organization perpetuation. This means that short-run goals need to be recognized as such and should not be-

come devices for the sacrifice of long-run gain, an emphasis which current MBO practice encourages. This is one of the reasons I think current MBO practice is short-sighted and self-destructive.

INTERDEPENDENCE

We must recognize that the crucial element in human relations in organizations is the man-boss relationship. Within that relationship we must particularly recognize the overriding importance of the concept of interdependence. Reward-punishment bureaucratic structures tend to make people heavily dependent on their superiors. This leads to conformity, lack of spontaneity, manipulation and undercover ways of coping with authority. Current MBO practices simply fit into that kind of structure and, in my judgment, make it worse. If we recognize that the boss is as dependent on the subordinate as the subordinate is dependent on the boss, and their interdependence is a focus for task accomplishment, then this means MBO should include a mutual appraisal process. This gives us a picture of a manner in which the superior is developing the subordinate, and an index of the way he is growing managers, as well as a better picture of whether the subordinate is able to appraise what is happening to him. Of course, this means the subordinate must be protected, and he can be protected only if his appraisal of his superior is reviewed by the superior's superior. An accumulation of such upward appraisals provides us with an index to how well a given executive develops his people, a problem to which we alluded before as difficult to measure.

GROUP EFFECTIVENESS

In thinking of upward appraisal as well as downward appraisal, we must also relate the individual's performance and outcome to group performance, organizational performance and such other interrelationships in which he may be involved. To me this means a compensation has to be established on a three-way basis. I think a man should be paid

competitive rates for his specialty and position, but in addition, should be rewarded on a pro-rata basis for his contribution to group effectiveness. This enhances his identification with his work group as contrasted with the self-centered attitude fostered by historic MBO and appraisals. It also identifies him with his group in a way that the other group members can criticize his performance in relation to their group task accomplishment.

In addition, if he is rewarded on a pro-rata basis for his contribution to organizational performance (organization in this case meaning that part of the unit beyond the group over which he exercises some degree of influence), then he is identified with the organization as well as the group as well as with his own self-interest. There are many ways to do this ranging from such efforts as the Scanlon Plan to various profit-sharing devices. However, I think such arrangements could easily be restructured to provide multiple identification without being limited to one dimension such as cost reduction.

We must seriously recognize the limits of job descriptions, objectives and appraisals as currently practiced. While many consultants and others speak with great enthusiasm about the installation and implementation of such programs, I have observed that they are frequently honored more in the breach than in the practice. They are so involved in the guilt feelings of the appraisers as well as the oversimplistic practices of appraisal that they serve very little long-run purpose in most cases. This is harsh criticism and many people will disagree. However, I cannot help but be impressed with the difficulty I see in many organizations.

CRITICISM OF MANAGEMENT

We must also provide avenues for internal, individual and group criticism not only of their own performance but also that of higher management. The recent recession and the displacement of so

many white-collar people make it clear that people are going to be less willing to trust decisions of higher management, particularly when so often those management decisions are based on inadequate knowledge, obsolescent conceptions or managerial generation gaps of such proportions that senior managers simply do not know what is going on either in the marketplace or among their people. As a result unless people have an opportunity to both criticize and make recommendations about higher management practice, the degree of trust in organizations everywhere will decrease. Such a decrease in the degree of trust will make a mockery of management by objectives or the objectives themselves will become increasingly hollow.

In practice we must consciously and continuously reappraise performance against ideals. An organizational ego is essentially the only way to hold the organization together. As a result, organizational ego ideals, if they are to function at all, must be the basis for decisions in practice. That is, when difficult value choices are to be made they must be made on the basis of an ideal or they will be made expediently and the ideal will be sacrificed. For example, if a company decides that it is going to manufacture high quality products and establishes its ideal in the minds of its employees as something to identify with, a shift to shoddy products will undermine the company.

PARTNERSHIP RELATIONSHIPS

It seems imperative to implement a concept of differential power in a partnership against tomorrow's problems. This is an extrapolation of a point which Drucker made but needs to be made in a more refined way. Managers are best developed out of partnership relationships in which superiors have greater power and competence, but who, for all that power and competence, are engaged with the subordinates in problem-solving activities which contribute to competence in the subordi-

nates. This in essence is no different from that ideal partnership between father and son in which there is mutual respect, interdependence and growth.

This concept is not elaborated in any of the discussions of MBO nor do I find it elsewhere in the literature although I have given it heavy emphasis in all of my own work. It needs conscious acceptance because only with that kind of recognition of the nature of the relationship can people clearly understand what they are supposed to do in it and clearly appraise what they want to come out of it.

PUBLIC RESPONSIBILITY

We have increasingly come to that point in time where organizations are being held responsible for their public charge. Recently, the Council of Economic Development, under the chairmanship of Raymond Mulford, chairman of Owens-Illinois, has enunciated a policy statement of public responsibility for corporations. Such a policy statement appropriately modified and adapted for individual organizations can constitute a basis for carrying out the public responsibilities of those companies. This, in turn, can lead to ways of stating modes of accomplishment of public responsibility and various occupational levels in a corporation.

Thus, we are now at that point where ways in which people contribute to the public responsibility of the organization can be weighed, measured and incorporated within an MBO and appraisal process. This issue is particularly important because in many organizations there is emphasis of MBO in cost reduction, which often means cutting out or cutting down on those devices and practices which may alleviate pollution. Thus on the one hand, one is encouraged to reduce cost by increasing pollution while other organizations are responsible for decreasing pollution. Only a value statement, a statement of organizational ideals and their translation into public service can help us with such issues and make MBO more realistic and constructive.

MANAGEMENT FOR THE FUTURE

Finally, we need to specify the assumptions about motivation behind every process and every organizational procedure and check them out. Implicit in MBO and most of the managerial processes is a reward-punishment psychology. This has destructive outcomes for organizational survival. Organizations rarely examine the psychological motivations behind the practices they assume. They tend to take reward-punishment motivations for granted and

to expect positive outcome. This is much like not knowing the molecular structure of a piece of metal and then trying to make certain objects which do not yield adequately, break too soon, or in some other way do not perform adequately. We can no longer be so naive about psychological matters; we will increasingly have to examine them in their subtlety. Such vague conceptions as self-actualization will not be enough for this purpose. We inevitably are to be concerned with organizational perpetuation and, therefore, with the long-run cost of any policies and practices. As Drucker has pointed out full management is management for the future.

Management for the future essentially must be based on hope and trust, hope meaning some aspirations as to what may come from one's efforts in the form of an ego ideal for self and organization, and trust meaning the ability to count on a relationship with others and the organization toward accomplishing that ideal.

A shift from a reward-punishment psychology to the psychology of motivation based on an ego ideal and some of the principles I have outlined in some of my other writings means a shift from an adversary psychology to a cooperative psychology in which the adversary is the problem to be solved, the marketplace to be vanquished, and the achievements to be collectively attained.

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