management by objectives

characteristics

author:	Drucker, Peter Ferdinand
country:	United States
period:	1954
type:	theory
role:	consultant and manager
activity:	design, plan and implement
topic:	innovation & risk and technology & operations
abstr. level:	organisation
perspective:	rational
status:	final
module:	classics I
comments:	1

related models

fourteen principles of management

description:

The Austrian-American business writer, Peter Drucker, stressed the importance of the relationships between manager and staff. Like Fayol, he held that the better the relationships, the greater the organisation's achievements.

Drucker departed from Scientific Management's emphasis on efficiency and structure by advocating that a manager's primary task is to manage for results by translating corporate objectives into departmental, group and individual measures of performance. Drucker's 'Management by Objectives' defines and manages routines in a coherent and consistent manner, and allows the assessment of managerial performance. Drucker's framework enables managers to focus on new ideas and innovation by liberating them from the day to day activities that overwhelm their ability to manage their organisation's main objectives.

Goal setting in organisations (Simon) helps to:

- set the direction and focus attention (cognitive function);
- provide a rationale to the outside world for organising activities (symbolic function);
- provide a justification for demonstrated behaviour (justification);
- offer a standard of assessment of performance (evaluation);
- provide identity for its members (cathartic or motivational function).

Drucker's typology of Organisational Goals clarified tensions created by the varying interpretations of goal statements from different stakeholders. In addition, organisations have to come to terms with contradictory sub-goals and make trade-offs between them. His typology distinguished between the following eight tangible and intangible objectives:

1. *Market standing*

The organisation's position in the market (quality and market share): e.g. to become the quality leader in market x.

2. *Innovation*

The value of new product development: e.g. to develop two new products over the next 12 months.

3. *Productivity*

The level of output: e.g. to increase production of product x by 25%.

4. *Physical and financial resources*

The nature and extent of resources in product development and production: to reduce the cost of raw materials by 15%.

5. *Profitability*

Profit and return on investment: to increase profit by 7%

6. *Manager performance and development*

Managerial output, growth, activities, and style; to send all managers to at least one quality management training program

7. *Worker performance and attitudes*

Individual output, turnover, absenteeism, satisfaction and moral: to reduce turnover to less than 6% per year

8. *Public responsibility*

The organisation's use of natural resources and contribution to the public good: to reduce the use of energy by 2%

'Management by Objectives' takes these high level corporate objectives and translates them into a cascade of key tasks, key results, performance standards and areas of activity. Drucker emphasised the importance of verifying the quality of objectives: work improvement plans matched key tasks with action plans and target dates; control data required to assess progress and performance; regular performance reviews scheduled to discuss current situation and define appropriate next steps. Ducker's planning & control cycle concluded with career development reviews to assess employees' current performance, outline career paths and determine training and development needs.

assets:

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ProvenModels • editor PM • version 0.1 • 47 KB

SMART objective
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pros:

- "Management by Objectives" provided a language and set of tools to communicate and coordinate activities in a coherent and coordinated manner throughout the organisation.

- An underlying assumption held managers as proactive catalysts of change whose prime responsibility was to assure that the organisation is doing the right things rather than optimising current processes and activities.

cons:

- This methodology can lead to overemphasis on formalities and standards that limit change and institutionalise processes. The formal planning & control cycle hampers continuous improvement.
- The technique's key assumption is that the organisation knows its objectives. This condition, however, cannot be met in times of turbulence.
- 'Management by Objectives' was devised when the coordination of efforts by a large and low skilled work force was one of the most pressing management issues. The technique does not readily apply to professional organisations where knowledge is the key resource to manage.

references:

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