

Management by Objectives

by

Jaime Hauyon

Honors Thesis Presented in  
Partial Fulfillment of the  
Requirements for Graduation  
with Honors to the Department  
of Business Administration  
at Carroll College, Helena, Montana

March 28, 1969

CORETTE LIBRARY  
CARROLL COLLEGE



This thesis for honors recognition has been approved for the  
Department of Business Administration by

*Ernest W. Bacon*

Ernest W. Bacon, J. D.

*Charles E. Mandeville*

Charles E. Mandeville, C. P. A.

*Eugene C. Franks*

Eugene C. Franks, M. S.

MAR 28 1969

CARROLL COLLEGE  
LIBRARY

TABLE OF CONTENTS

	Page
PREFACE. . . . .	iii
LIST OF ILLUSTRATIONS. . . . .	iv
Chapter	
I. THE MANAGEMENT PROCESS. . . . .	1
A. What is the Management Process and Who is a Manager	
B. The Four Processes of Management	
II. MANAGEMENT BY OBJECTIVES AS AN EFFECTIVE SYSTEM FOR THE MANAGEMENT PROCESS . . . . .	5
A. What is Management by Objectives	
B. Prerequisites for a System of Management by Objectives	
C. The Management by Objective Cycle	
D. Management by Objectives and Long Range Planning	
E. How does the System Work	
1. The Framework for the System and Examples from Industry	
2. Motivation, Evaluation, Compen- sation, and Standards of Performance	
III. CONCLUSION. . . . .	27
BIBLIOGRAPHY . . . . .	28

## PREFACE

Today's business world is growing so fast that many times this exceedingly fast growth can leave a company without sense of purpose and direction. Any business enterprise that lacks purpose and direction is futile because all of its activities will wander in different directions with no unifying purpose, ultimately chaos will come.

The purpose of this thesis is to provide an answer to the need of purpose and direction of any business enterprise; my answer is named Management by Objectives. Originally, this term was coined by Peter F. Drucker in his book "Practice of Management" (1954), and later developed by many other writers especially George S. Odiorne in his book "Management by Objectives" (1965).

I would like to acknowledge the cooperation of Dr. Ernest W. Bacon whose inspiration and guidance has made this project possible.

LIST OF ILLUSTRATIONS

Figure	Page
1. Maintenance and Motivation Needs	8

TELECO MESSAGE LOG

## CHAPTER I

### THE MANAGEMENT PROCESS

#### A. What is the Management Process and Who is a Manager

Management is a vaguely and widely used term today; it is used to describe the activities of the top executives of a company; it also applies to personnel administration within a company; sometimes it is used to indicate the structures of a business enterprise. Management, above all, is an initiatory decision making process whereby an organization and its members accomplish their objectives. Does this mean that anybody making initiatory decisions is a manager? Not necessarily. A manager is one who gets things done with and through other people. At the same time he takes personal responsibility for the results of his decisions, and takes the risk of personal failure. These attributes distinguish him from an employee who works for pay and follows directions.<sup>1</sup>

A manager needs to relate properly to his environment (people, economy, other organizations, etc.) in order to be effective. A manager in today's complex world must be able to meet the challenges of the present and of the future: profit, growth, survival. Not that these challenges become an end of his actions, rather he can cope with them through an effective system of management that will accomplish certain desired results. A manager is a goal-oriented person; he is a man with

---

<sup>1</sup>George S. Odiorne, Management by Objectives, (New York: Pitman Publishing Company, 1965) p. 41

enough integrity of character to be a leader. He is creative, confident, and action-minded. The desire for excellence will characterize all of his actions. He takes moderate risks, and sets for himself short-term and long-term goals. A manager is a problem solver as well as a problem formulator. He has a view of the future without losing grip with the present.<sup>2</sup>

A Manager must be able to visualize the business organization as an integrated system. All of its parts must perform their activities in an integrated manner so that the desired results can be achieved. This means that the management group should perform the following:

- 1) Definition of the business as a system
- 2) Establishment of system objectives
- 3) Creation of subsystems
- 4) Systematic integration of the activities of all the subsystems.<sup>3</sup>

---

<sup>2</sup>Charles L. Hughes, Goal Setting, Key to Individual and Organizational Effectiveness, (New York: American Management Association, 1965) p. 39

<sup>3</sup>Ernest C. Miller, Objectives and Standards, An Approach to Planning and Control, (New York: American Management Association, 1966) p. 18

## B. The Four Processes of Management

All of the activities of management can be grouped into four different processes which are the following:

### 1) Planning

It is the process of establishing certain objectives and the ways to achieve them. The Planning Process involves:

- a) Determination of the present situation.
- b) A quantitative and qualitative analysis of the present situation.
- c) A synthesis of the analyzed parts in the way management will like them to be in the near and long-term future.
- d) Initiatory action is taken. This is the action plan regarding the above synthesis.

### 2) Organizing and Staffing

Organizing refers to the establishment of the proper responsibility and accountability structure within the business. Organization should be such as to provide for proper flow of communications, and a favorable human relations climate.

Organizing also includes staffing under which each unit will be provided with the adequate personnel, and the duties, responsibilities, and relationships of managers and employees will be defined.

### 3) Directing

It is the management process whereby employees will be trained, motivated and counseled for the purpose of

gaining their maximum contributions. Here is where dialogue is so important.

4) Controlling

It is the management process whereby review and measurement of performance is made in order to determine to what extent have objectives been achieved. Corrections, and improvements are made to objectives, and standards of performance for further effectiveness.<sup>4</sup>

---

<sup>4</sup>Herbert J. Chruden, Arthur W. Sherman, Jr., Personnel Management, (Cincinnati: South-Western Publishing Company, 1968) p. 33-5

## CHAPTER II

### MANAGEMENT BY OBJECTIVES AS AN EFFECTIVE SYSTEM FOR THE MANAGEMENT PROCESS

#### A. What is Management by Objectives

Management by Objectives is an initiatory decision making process whereby the managers of a company establish their common and individual objectives which are put in terms of results, and measure performance against standards.<sup>5</sup> This system of management is designed for any kind of business enterprise, and its objectives cover these key areas in a business: a) Research and Development, b) Marketing, c) Production, d) Finance, and e) Personnel. It is within this system that a manager can review, suggest, guide, question, and decide.

The system of Management by Objectives will be characterized by:

- a) A hierarchy of objectives.
- b) It will provide for growth of the company by performance and evaluation.
- c) Even though it is designed for staff members, it is also applicable to line members.
- d) It solves the problems of managing managers.

Since this system is based on objectives, it is imperative that managers establish realistic objectives. In order to establish realistic

---

<sup>5</sup>Odiorne, opp. cit., p. 55

objectives, managers should go to the sources of management knowledge. There are many sources of management knowledge; they can be classified into three groups.<sup>6</sup>

- a) Imitation
- b) Situational thinking
- c) Behavioral Sciences

Setting objectives by imitating other companies' objectives is good insofar as a manager can draw the good qualities of those objectives as they apply to his company. The danger of imitation is that independent thinking and creativity might disappear, and the company does what other leaders do; if this is the case, such company does not need managers nor a system of management.

Situational thinking is the best way to establish objectives. Under this situation, a manager makes a careful analysis of the entire working situation (people, values, policies, etc.). Then he makes a statement of the present situation with a view of the future, suggesting corrections and innovations.

The behavioral sciences like psychology, sociology, economics, and anthropology give much insight into the management process. They make the manager aware of present and future trends and problems, and throw a light into their solution. It must be remembered that management knowledge lies in managing and not in the Social Sciences.

The establishment of objectives or goal setting is a process that allows for creativity.<sup>7</sup> A manager must view the two sides of creativity: extrinsic creativity and intrinsic creativity.

---

<sup>6</sup>Odiorne, opp. cit., p. 54

<sup>7</sup>An objective means a statement specifying a condition that an individual or organization would like to exist in the future.

Extrinsic creativity as its name indicates comes from outside. It refers to new ideas in industry, group dynamics, new approaches to motivation, linear programming, queuing theory, machine accounting, etc. Intrinsic creativity refers to the ability of a manager to apply these new ideas to his particular working situation. The success of intrinsic creativity depends upon how well a manager can relate to his environment.<sup>8</sup>

There is a prerequisite in the establishment of objectives. It is that the company must define itself. What is our business? What service are we providing? What customers' needs are we satisfying? These are basic questions that must be clearly answered in order to establish objectives.

Objectives, even though they are company wide, must give room for fulfillment of the personal goals of managers and other employees. Company objectives must come from the top so that they can be properly translated to the employees. By "translated", I mean that company objectives must be put in terms of a particular manager or of a key employee's job, duties, and responsibilities so that he can react accordingly, and at the same time incorporate his personal goals into the Management by Objectives system. Objectives should allow for the satisfaction of maintenance and motivation needs of managers and employees. Maintenance needs refer to the lower order needs, while motivation needs refer to higher order needs. Maintenance needs must be first satisfied in order to satisfy motivation needs. It must be pointed out that the satisfaction of maintenance needs does not bring happiness and a feeling

---

<sup>8</sup>Odiorne, opp. cit., p. 114

of accomplishment to a manager or employee; rather they prevent unhappiness. The satisfaction of motivation needs will bring happiness and a feeling of accomplishment to a manager and employee. The following chart will give a better description and differentiation of maintenance and motivation needs.<sup>9</sup>

	MOTIVATION NEEDS	MAINTENANCE NEEDS
ORIGIN	Human tendency of becoming	Animal tendency of survival
CHARACTERISTICS	More psychological in nature Long duration of satisfaction Satisfaction/no satisfaction Goal-oriented	More physical in nature Short duration Dissatisfaction/no dissatisfaction Task-oriented
SOURCES OF SATISFACTION AND DISSATISFACTION	Job content, mainly internal to the person Work itself Personal standards	Job context, mainly external to the person Work Environment Impersonal standards
MANIFESTED NEEDS	Achievement Growth Responsibility Recognition	Physical Social Status Orientation Security Economic

---

<sup>9</sup>Hughes, opp. cit., p. 34

B. Prerequisites for a System of Management by Objectives

Management by Objectives is established with the fulfillment of certain necessary conditions which are:<sup>10</sup>

- 1) Proper personal relations must exist within all levels of the enterprise. Communications must follow their proper flow within the organization. Managers should have enough initiative to start dialogue among themselves and with key employees so that the problem of inter-personal relationships, one of the most pressing problems in any organization today, can be overcome.
- 2) The necessary leadership qualities must be present in all levels of management. Managers should assume their proper roles.
- 3) Certain degree of company loyalty must exist among managers and key employees. Loyalty is needed because the objectives are going to be realized over a period of time which may be from three to five years or more.<sup>11</sup>
- 4) The approval and support of the system by the head of the division or organization is necessary. Top executives have to be familiar with the system and how it operates before any further action can be taken.
- 5) Once there is approval and support by top management, managers establish measures or standards of performance. Then the

---

<sup>10</sup>Odiorne, opp. cit., p. 68-9

<sup>11</sup>David W. Ewing, Long Range Planning for Management, (New York: Harper and Row Publishers, 1964) p. 148

common goals of the organization are established based on these standards. Managers among themselves will establish these common goals after the proper dialogue about the objectives of the enterprise has been made with employees.

- 6) Goal setting continues after the common goals of the enterprise are established. Common goals are translated to every department and key employee. Translated here means that the common goals are put in terms of the departments' and employees' duties and responsibilities so that they can formulate their own goals in terms of the common objectives.
- 7) The necessary changes are made in order to permit the accomplishment of the common objectives. Proper changes in organization structure are made. The budget is analyzed and modifications are made. Delegation of responsibility is clearly described. Policies are clarified, and procedures are amended. Salary, bonus procedures, and the appraisal system are revised, etc., etc. It is important to point out that change should always bring some benefit; no sense in making a change for change's sake.

The time element should not be overlooked in goal setting.

Management by Objectives establishes objectives for more than one year; this is discussed in the Long Range Planning section. Objectives for a year are made in terms of long range objectives. Goal setting for the coming year should be done before the beginning of that year. Managers then have enough time to dialogue among themselves and with their key employees. The employees then have time to understand the company's objectives and the department's objectives, and formulate

their goals for the near future. As the year goes on, periodic evaluation of performance against goals and standards will be made between managers and employees so that modifications are made in time. At the end of the year a written statement about performance will be handed in by key employees to managers. The report should compare results against goals and standards of performance. Variances are clearly analyzed so that corrections for the coming year's goals can be made. The yearly period need not follow a calendar year; it can start any appropriate month according to the nature of the business and the circumstances and go on for twelve months.

### C. The Management by Objectives Cycle

Management by Objectives is a cyclic system. The system follows the characteristics and time considerations discussed in the preceding pages; the system demands efficient use of time by all of its followers.<sup>12</sup> Actually, many of the prerequisites of the system and the characteristics of the cycle are the same. The following discussion is to point out that the system follows a cyclic pattern.

It is important to point out that this is a system of managing, and not a mere addition to a manager's job. Management by Objectives is management par excellence. This system demands a change in behavior by managers and employees, especially by a manager, since he should set the example of a result-oriented behavior. A manager should constantly ask this question: What can I do, or do differently, or stop doing, to help myself and others to achieve the company goals, and the goals in our own positions?

The following is a brief description of the Management by Objectives cycle:

- 1) Common goals and the standards of performance are established.
- 2) Revisions in the organization structure are made so that goals and performance can be attained.
- 3) Managers establish their own goals which are viewed in terms of company's goals.
- 4) Managers and key employees who are directly accountable to the managers establish the employees' goals and measures of performance which are viewed in terms of company's goals and standards of performance.

---

<sup>12</sup>Odiorne, opp. cit., p. 77

- 5) Feedback of results against goals is made. Inappropriate goals and standards are eliminated, other changes are made as necessary.
- 6) Periodic review of results against goals and standards is made.
- 7) General review of organization performance is made.
- 8) In order to establish common goals for next year, as well as any modifications in long run objectives, measures of organization performance are altered if necessary, and the cycle goes on again.

Management by Objectives is a system that allows for creativity and dynamism; it is a result-oriented system. Management by Objectives has some don'ts, some of the major ones are:<sup>13</sup>

- 1) Don't get involved in personality discussions; they don't add anything to the system. They may even lead to antagonism among the members of the organization. The dialogue among managers and between managers and employees should be about the job, the desired results, and the reasons for variances between actual performance and desired results.
- 2) Discussions about salary and performance should be kept separate.
- 3) Potential and promotability should not be discussed at the same time, especially when a manager is working on a man's responsibilities and results.
- 4) Don't hold a manager or an employee accountable for things which are beyond his control.

---

<sup>13</sup>Odiorne, opp. cit., p. 79

- 5) Don't concentrate on details while overlooking results.
- 6) Withhold judgment about results that a man has achieved until you have a discussion with him.
- 7) Avoid nagging. By nagging I mean criticizing a subordinate for his failure to do things he did not clearly know were expected of him.

#### D. Management by Objectives and Long Range Planning

Long Range Planning is a concept in business management that lately has become very important. LRP<sup>14</sup> is the goal setting process of a firm from which it will outline specific plans to accomplish these goals. This goal setting process is usually done for a three to five year period. This time-range consideration may be more than for five years; it depends upon the nature of the investment of resources of the enterprise.<sup>15</sup>

LRP has arisen as a very important concept in business management because of several reasons. Some of them are:

- 1) Today's corporation is seen as a long-living institution in charge of bringing some change to society. A corporation today is a group of professionals who exercise autonomous responsible judgments.<sup>16</sup>
- 2) Modern management has become more aware of the need of purpose and direction in all of its endeavors.
- 3) Management has realized the need for improvement; change must be brought for the better, not for change's sake.
- 4) The great technological advances in the last twenty years, such as the computer and all the other technological changes in manufacturing, marketing, etc., have put new challenges to management especially because of competition.

---

<sup>14</sup>LRP is the abbreviation for Long Range Planning

<sup>15</sup>Ewing, opp. cit., p. 36

<sup>16</sup>Ibid., p. 3

- 5) There is a systematic approach to the management process in today's business world. Management decisions are no longer made on a trial and error approach; rather they are made as part of a system with quantitative and qualitative considerations.

There are some misconceptions regarding LRP, some are:<sup>17</sup>

- 1) LRP is not forecasting; rather LRP is done because nobody can predict the future accurately.
- 2) LRP does not refer to future decisions; decisions do not exist in the future. LRP considers the futurity of present decisions.
- 3) LRP does not eliminate risk; rather it guides managers in taking the right risks. LRP also enables managers to take greater risks for greater benefits.

LRP is carried on in view of the following considerations:<sup>18</sup>

- 1) The first step in LRP is an effective short-term plan. There is little purpose in making a long range program when a company has difficulties in the short run.
- 2) LRP makes certain assumptions about the members of the company and of other institutions.
- 3) Expectations are taken into consideration. What future events or results are very likely to happen?
- 4) Alternatives are established. What course of action to take? Where to act or not to act?
- 5) The decision itself is made.

---

<sup>17</sup>Ibid., p. 3

<sup>18</sup>Ibid., p. 13

- 6) Consideration to the decision structure is given. How does this decision affect other decisions to be made immediately or in the future?
- 7) The impact stage is analyzed. Action has been taken; what are the reactions? What must people do and where?
- 8) Results are analyzed. How do these results relate to our objectives? Needed corrections are made.

LRP, besides accomplishing its desired objectives, also produces several by products, some of which are:

- 1) It brings an integration of thought among executives.
- 2) LRP helps to discover potential difficulties that will otherwise be hidden.
- 3) It provides for a wide appraisal of potential techniques for better management.

Management by Objectives fits perfectly for the need of LRP within an enterprise. The characteristics of LRP and of Management by Objectives properly integrated should produce effective management. How well this integration can be done depends upon the manager's ability to perform effectively as an individual and as a member of the management group.

## E. How Does the System Work

### 1. The Framework for the System and Examples from Industry

Management by Objectives should also integrate to the other major plans of the company. It must be remembered that a business must function as a single integrated system where there is a preoccupation with its present and its future. The Management by Objectives cycle, LRP, and the other major kinds of plans within the enterprise take place at the same time; many of their activities and characteristics are interrelated.

The major kinds of plans within an enterprise are:

#### 1) Objectives

They are the basic or primary plan. Objectives are statements specifying a condition that an individual or organization would like to exist in the future. They are the aims of the activities of the enterprise.

It can be argued that all objectives can go down to profit. This is not necessarily true. While not overlooking the importance of profit; there are other ultimate objectives such as market penetration, product development, diversification, management security,<sup>20</sup> etc. Profit is a means to these objectives.

#### 2) Policies

They are general statements or understandings whereby the

---

<sup>19</sup>Ewing, opp. cit., p. 22-30

<sup>20</sup>Management security is an objective whereby a manager will perform activities and produce results just in order to keep his job; obviously, it is not a good objective.

action and thought of the subordinates will be channeled and guided. They are usually in writing. Policies are of a permanent nature, but still flexible.

3) Procedures

They are specific courses of action which will guide present and future activities. There is a chronological sequence to procedures. Procedures determine certain paths through policies.

4) Budgets

A budget is a statement of expected results put in numerical terms; it reveals the proposed standards of the enterprise. There are different types of budgets, such as the budget of revenue and expense; the capital expenditure budget; and the cash budget. All of them will form part of the overall company budget. A budget is a control device, but the making of a budget is a planning function. A budget cannot be used for control until it comes into existence, and a budget in order to exist as a control device must reflect objectives.

5) Programs

A program is an integration of the objectives, policies, procedures, and budgets of an enterprise. This integration should be such as to permit the realization of all of its parts. Programs vary in size and in length of time. An entire program may be encompassed by a budget which will also include derivative programs.

So far I have given a general description of Management by Objectives and other related areas. This description may sound like

pure theory, but it must be remembered that nothing is more practical than a good theory. The following pages will describe the experiences of different companies in using Management by Objectives. These experiences will point out that Management by Objectives is the actual process of management taken in a systematic manner with an emphasis on desired results.

RCA provides a good example as to what results Management by Objectives have brought to that company; these are:

- 1) Greater unity of purpose throughout the company.
- 2) Increased manager motivation.
- 3) Improved self-direction and self-control in managers.
- 4) Creation of a more demanding, more highly charged company tone.
- 5) Improved communications.
- 6) Closer cooperation and communications.
- 7) A sounder basis for executive appraisal and development.
- 8) Clearer standards for control decisions.
- 9) A sounder basis for compensation decisions.<sup>21</sup>

Metropolitan Life Insurance Company has its own definition of Management by Objectives which is:

"Management by Objectives' describes the management process whereby all work is organized in terms of achieving specified conditions (results) by set time. Implicit in the process is the requirement that the specified conditions contribute to achieving the broader objectives of the organization."<sup>22</sup>

Mr. John W. Maillet, manager, The Boeing Company; Aerospace

---

<sup>21</sup>Miller, opp. cit., p. 15

<sup>22</sup>Ibid., p. 18

Group, and Electronics Operations, can give us an idea about the application of Management by Objectives:

"The first order of business of each member of management is to study this (planning guide) and then make certain that his personal objectives, plans, and efforts will support it to the fullest possible extent. The managers' efforts support five key result areas:

- 1) Operating Continuity. The maintenance of a capability sufficient to meet customer commitments...
- 2) Personnel Development. The growth of people toward their full potential...
- 3) Technical Excellence. The availability of the very latest resources in skill, knowledge, and facilities, at high enough levels for us to compete successfully as a space-age electronics manufacturer...
- 4) Cost Effectiveness. Building a product of the required quality and reliability with less expenditure...
- 5) Marketing. Our program for increasing electronics hardware sales."<sup>23</sup>

Rear Admiral Charles H. Smith, USN (retired), vice president and special assistant to the president of Westinghouse Air Brake Company, gives another view of Management by Objectives which shows the flexibility of this system of management, he says:

"Profitability is what we want, but it cannot be achieved unless we formulate and achieve objectives in each of the seven result areas. These - plus profitability - give us the eight vital words or terms:

- 1) Market Position - your relative status in the marketplace.
- 2) Productivity - your relative proficiency in use of resources to satisfy customer wants.

---

<sup>23</sup>Miller, opp. cit., p. 32

- 3) Innovation - your planned development of new products, services, or methods.
- 4) Resources - your acquisition, protection, conservation, and development of things needed.
- 5) Manpower Development - your programs to increase individual or group capacity.
- 6) Employee Attitude - your state of morale and discipline among the people under your supervision.
- 7) Public Responsibility - the degree to which you assist and encourage your employees to participate in an enlightened manner in constructive civic, institutional, and governmental activities.

"Our philosophy is that profitability is the total gain/loss resulting from success or failure to establish and to achieve optimum objectives in each of these profitability result areas; failure will result if any one is neglected over a sufficiently long period of time, and management is paid for exercising the judgment necessary to insure that available resources are properly allocated to the accomplishment of short range and long range objectives."<sup>24</sup>

The following quotations show that Management by Objectives does not overlook the short-term plan or objectives; they are part of the system. They are the only way that long-term objectives can be accomplished.

"We have a five-year plan. This plan is based upon broad objectives. Short-term objectives year by year are integrated with those of the long range plan, and these objectives in turn are made functional through their fragmentation to functional units." (Robert O. Barber, president, Univis, Inc.)<sup>25</sup>

"Objectives currently established are part of long-term plans, and our efforts toward development of specific current objectives have brought about increased realization of

---

<sup>24</sup>Miller, opp. cit., p. 33

<sup>25</sup>Ibid., p. 33

the importance of more extensive long range planning." (C. F. Schlueter, vice president-branch operations, Employers Mutuals of Wausau)<sup>26</sup>

"Objectives must be keyed to published institutional objectives and goals, which are in turn keyed to long range plans." (Seeber C. Tarbell, director of personnel, Agway, Inc.)<sup>27</sup>

"Achievement of the target plan by an individual should result in a distinct improvement in performance of the organization unit as a whole and of that part he manages. Therefore, the target plan for an individual should be related to the near-term and long range objectives of the unit and of the company." (Westinghouse Electric Corporation's Management Guide)<sup>28</sup>

The B. F. Goodrich Company provides another view of Management by Objectives under which objectives are established for the top 200 executives.<sup>29</sup>

All of the preceding descriptions and quotations point out that Management by Objectives is an effective system of management; it is a good theory which is very applicable.

---

<sup>26</sup>Ibid.

<sup>27</sup>Ibid., p. 33

<sup>28</sup>Ibid.

<sup>29</sup>Ibid.

## 2. Motivation, Evaluation, Compensation, and Standard of Performance

Motivation is the key to successful accomplishment of Management by Objectives. It refers to the drive and intelligent effort that a manager and employee will demand of themselves. Without motivation pseudo-objectives will be established and the company will become just a task-oriented organization. There will be no sense of purpose and direction, and the organization will eventually decay.

If motivation is the basis for the success of Management by Objectives, the working environment must be conducive toward achievement motivation. A manager, the leader in an organization, is primarily responsible for achievement motivation for himself and his employees.

Achievement motivation is characterized by:

- 1) A simple organizational structure. This should lead to a close personal relationship between and among managers and employees. Status symbols and influences should be kept to a minimum.
- 2) Dialogue is very important. Monologues given by managers take away motivation. Motivation is greatly increased by proper dialogue among all members of the organization. Proper dialogue provides feedback and evaluation. Managers and employees will perform effectively if there is participation through dialogue in making important decisions. Dialogue leads to participation, participation leads to happiness, and happiness leads to productivity.
- 3) Responsible behavior is present. Proper allocation of responsibility is necessary. A manager must allow for competition

among employees at their own level.

- 4) Proper corrections must be made uniformly. Favoritism and other influences should disappear. Criticism must be constructive and corrections must clearly outline new courses of action.
- 5) Proper compensation cannot be overlooked. Compensation should always be based on the individual's contributions to the organization. Contributions need not only be material ones, and they must consider long run as well as short run contributions.

Compensation is not only in monetary terms, but also in terms of personal recognition, and giving the manager or employee more freedom to follow his own ideas regarding his responsibilities.

Proper compensation is necessary; unfair practices in compensation will curtail motivation.<sup>30</sup>

The happening of all of the characteristics of an achievement motivation environment should lead managers and employees to self-awareness. They become aware of their individuality as well as of their membership in the management process. They understand the company's goals, and they will incorporate their personal goals into the company's objectives, allowing for their own maturity and development as well as for the success of the enterprise.

Standards or measures of performance are mentioned throughout this paper. It is important to analyze them since they are the basis for

---

<sup>30</sup>Hughes, opp. cit., p. 81

the establishment and accomplishment of objectives. A standard refers to certain requirements that must be satisfied in order to consider a job well done. It should consider the person performing it, and the time specifications. Standards must be constantly reviewed. A standard emphasizes results. Standards are incorporated in objectives.

A common approach to setting standards of performance is:

- 1) As a prerequisite to the establishment of standards, there must be a clear and concise definition of the business. What is it? Why is it? These are important questions that must be answered clearly and concisely.
- 2) The people on the job for which standards are to be set are called together.
- 3) The major responsibilities of the job and the tasks to be performed in meeting each responsibility are defined and described to those concerned.
- 4) The measurement values which will represent standard performance are established.
- 5) The adequate procedures for collecting and reporting to job incumbents the measurements which will indicate their level of performance are established.
- 6) The organization structure should be such as to permit job incumbents to take remedial action if needed in order to meet their standards of performance.

## CHAPTER III

### CONCLUSION

The preceding pages have described the system of Management by Objectives and its application. This is a flexible system and can be adapted in total or in part to any business organization. Some people may think that a system of Management by Objectives is too idealistic and unattainable; they say that managers and employees are so busy with day to day operations that there is no time to set objectives and make the adequate decisions and changes to accomplish them. Actually, there is no system that can claim to be perfect.

Management by Objectives has shortcomings. Some are:

- 1) The system cannot appraise potential very accurately; it assumes that managers and employees have the potential to accomplish the firm's objectives.
- 2) The system assumes that managers will assume their responsibilities, and recognize the limitations of their authority. This is not always the case in reality.
- 3) The system puts a stress on results with little mentioning of ways to achieve them.<sup>31</sup>

It is much better for an organization to establish realistic objectives, and strive to reach them even though they may not be reached in full, than to wander with no sense of purpose and direction, and make decisions on a hit and miss approach. Management by Objectives

---

<sup>31</sup>Odiorne, opp. cit., p. 180-1

will provide realistic goals for any business enterprise, and set the guidelines to accomplish them. The system does not tell in detail how to achieve the objectives since this depends upon the type of business organization, and the abilities of managers and employees.

Management by Objectives is a system of management for the present and future. Business is growing so fast that amid growth there is a need of purpose and direction in order to strive toward certain goals. Management by Objectives is an answer to this need.

Bibliography

## Books

- Chruden, Herbert J., Sherman, Arthur W. Jr. Personnel Management. Cincinnati: South-Western Publishing Company, 1968.
- Ewing, David W. Long Range Planning for Management. New York: Harper and Row Publishers, 1964.
- Hughes, Charles L. Goal Setting, Key to Individual and Organizational Effectiveness. New York: American Management Association, 1965.
- Miller, Ernest C. Objectives and Standards, An Approach to Planning and Control. New York: American Management Association, 1966.
- Odiorne, George S. Management by Objectives. New York: Pitman Publishing Company, 1965.

## Periodicals

Ansoff, H. I. "Company Objectives, Blueprint or Blue Sky?,"  
Management Review (September, 1962)

Schaffer, Robert H. "Managing by Total Objectives," Bulletin,  
American Management Association (1964)