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Management by Objectives

George S. Odiorne

The systems concept is primarily a way of thinking about the job of managing.
—R. Johnson, F. A. Kast, and J. E. Rosensweig

At the outset, let's make it plain that the system of management by objectives goes beyond being a set of rules, a series of procedures, or even a set method of managing. As the above quotation points out, it is a particular way of thinking about management. Let's begin, then, by placing our system in its conceptual framework:

1. The basic structure of the corporation is the organizational form often called a *hierarchy.* This is the familiar arrangement of boxes showing the boss in the top box, with two, three, or more subordinates in the boxes one level down. Management by objectives is a system for making that structure work, and to bring about more vitality and personal involvement of the people in the hierarchy.
2. Management by objectives provides for the maintenance and orderly growth of the organization by means of statements of what is expected for everyone involved, and measurement of what is actually achieved. It assigns risks to all responsible leaders and makes their progress—even their tenure—dependent upon their producing results. It stresses the ability and achievements of leaders rather than their personality.
3. As a system, management by objectives is especially applicable to professional and managerial employees. It can extend as far down as first-line supervisors, and also cover many staff and technical positions. Though the same basic system (measuring results against standards) is

used in managing hourly rated or clerical workers, the methods of setting standards and measuring results are significantly different.

4. Management by objectives helps overcome many of the chronic problems of managing managers and professionals. For example:
   a. It provides a means of measuring the true contribution of managerial and professional personnel.
   b. By defining the common goals of people and organizations and measuring individual contributions to them, it enhances the possibility of obtaining coordinated effort and teamwork without eliminating personal risk taking.
   c. It provides solutions to the key problem of defining the major areas of responsibility for each person in the organization, including joint or shared responsibilities.
   d. Its processes are geared to achieving the results desired, both for the organization as a whole and for the individual contributors.
   e. It eliminates the need for people to change their personalities, as well as for appraising people on the basis of their personality traits.
   f. It provides a means of determining each manager's span of control.
   g. It offers an answer to the key question of salary administration—"How should we allocate pay increases from available funds, if we want to pay for results?"
   h. It aids in identifying potential for advancement and in finding promotable people.

A Brief Definition

In brief, the system of management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.

The words we shall use in describing this system will be those every manager knows. We'll talk about authority, responsibility, delegation, and so on. We'll refer to such familiar procedures as the performance review, the salary review, cost accounting, and other everyday management terms. The reader will not be called upon to master a new glossary or to grapple with the jargon of social science. Why? Because, management by objectives is essentially a system of incorporating into a more logical and effective pattern the things many people are already doing, albeit in a somewhat chaotic fashion, or in a way that obscures personal risk and responsibility.

The primary effects of operating by management by objectives are to be seen in such tangible results as improved profit, more growth, lower costs, and increased revenues. On a more intangible plane, it also makes bureaucracy less tenable by affecting such secondary variables as production, quality, housekeeping, sales volume, staff work, and research effectiveness. Its tertiary effects are visible in such areas as better morale, more promotable people, improved quality of service, and improved delegation of decision making. . . .

The Necessary Conditions

The primary condition that must be met in installing a system of management by objectives is the support, endorsement, or permission of the principal manager in the organizational unit where the system is to be used. The premise that success for every subordinate means "helping his boss to succeed" means also that the boss must be in accord with the goals of the subordinate and must not oppose the methods he uses to achieve them.

Hence, the place to begin an installation is with the top man in the organization where it is to be started. If the system is to be used at the corporate officer level, this will probably be the company president. At the divisional level, it must include the general manager, if the key functional heads are to use it as a way of managing. In manufacturing, sales, and engineering departments, it must include the plant manager, sales manager, or chief engineer of each of these functional units if it is to work effectively in them.

This doesn't preclude any manager whose boss is not opposed to his using the system from going ahead on his own and installing it in his own department or unit, so long as he has discretionary power over methods of managing.

The installation of management by objectives in the national sales organization of Honeywell's Micro-Switch division, for example, was successfully carried out because the division's national sales manager decided that the system had strong possibilities for his group, and his general manager enthusiastically backed him up. In numerous other companies, personnel, R & D, and accounting departments, legal staffs, and other units have successfully installed management by objectives where the top man in the unit was free to do so, and wanted it to be done. Usually the installation proceeds through the following phases:

1. Familiarization of the top man and his key executives (those reporting directly to him) with the system and how it operates.
2. Following the decision to install the system, the top man and his subordinates program measures of organization performance.
3. Goal-setting methods are then extended down through the organization to the first-line supervisory level through a successive series of meetings between the various organizational units and their superiors.
4. The necessary changes are made in such areas as the appraisal system, the salary and bonus procedures, and the delegation of responsibility. Ambiguous policies are clarified and procedures that may be blocking effective operation of the system are amended. Other changes, such as the installation of a system of "responsibility accounting" by the cost department, are also made.

The Stages of Installation for the Individual Manager

For every manager starting out to install this system in his own activity, the questions naturally arise: "How and where do I start? What steps are involved?" Following is a workable procedure for the individual manager at any level:

Actually two distinct but related activities are involved:

1. At the beginning of each budget year the manager and each of his subordinates agree on the subordinate's targets of performance for that year.
2. At the end of the year they take out these targets and jointly review the subordinate's performance against them.

Let's look a little more closely at each of these activities and see what the manager does to accomplish them.

Setting Goals with Subordinates

The following steps are undertaken at the beginning of each budget period for which goals are to be established:

Step One. Identify the common goals of the whole organizational unit for the coming period. This is based on your desired goals for the whole organization, which are stated in terms of the measures of organization performance you intend to apply at the end of the period. Some typical areas in which a statement of common goals may be needed are:

Profitability
Competitive position
Productivity
Technological leadership
Employee development
Public responsibility
Employee relations

Usually the economic goals are stated in terms of the controllable areas of responsibility for the head of the unit concerned.

Unit	**Economic Goal**
General management	Profit
Sales	Revenues, margins, or contribution
Service	Cost of unit of service delivered
Manufacturing	Cost of product made
Staff or research	Budget and program promised

Step Two. Clarify your working organization chart. Sketch the actual organization of the group under your supervision showing titles, duties, relationships, and impending changes.

As a manager you are responsible for achieving organizational results and personal responsibilities. You work out performance budgets only for those reporting directly to you. Those below that level should work out their budgets with their own immediate supervisor.

Your objectives are your own goals plus the major goals of those reporting directly to you. Don't pyramid into one set of goals all the many responsibilities of all the people below you in the organization. Carry the goal-setting process to your immediate subordinates. Take individual stock of the men with whom you'll be setting performance budgets. (Review each man's past work assignment, appraisals, salary progress. Note any special factors about him and his work; his major responsibilities, what's going to be expected of him, and so on.)

Step Three. Set objectives for the next budget year with each man individually. Here's how you go about this:

a. Ask the subordinate to make notes on what objectives *he* has in mind for next year and set a date when you'd like to discuss these with him. Normally, these goals will fall into four categories:

   Routine duties

   Problem-solving goals

   Creative goals

   Personal goals

b. Before the meeting, list some objectives you'd like to see him include for the next year and have them ready. Note especially any innovations and improvements required of his function.

c. In your personal conference, review the man's own objectives in detail, then offer your own suggestions or changes.

d. Have two copies of the final draft of his objectives typed; give him one and keep one yourself.

e. Working from the final agreement, ask him what *you* can do to help him accomplish his targets. Note his suggestions, keep them with your copy, and include them in your objectives, if pertinent.

Step Four. During the year check each subordinate's goals as promised milestones are reached:

a. Is he meeting his targets? Time, cost, quantity, quality, and service should be measured here.

b. Should his targets be amended? Don't hesitate to eliminate inappropriate goals, or to add new targets if a special opportunity arises.

c. Are you delivering on your part in helping him?

d. Use the jointly agreed-upon goals as a tool for coaching, developing, and improving each man's performance on a continuous basis. Reinforce good results by feedback of *success* when you see it. Allow a man to make some mistakes (don't hound him for them) but use his failures as a platform for coaching.

Measuring Results against Goals

These steps are undertaken as the end of the budget year draws near:

Step One. Near the end of the budget year, ask each subordinate to prepare a brief "statement of performance against budget" using his copy of his performance budget as a guide. Tell him not to rewrite the whole statement, but to submit a written estimate (giving relevant figures, where possible) of his accomplishments compared with his targets. In this statement he should also give reasons for any variances and list additional accomplishments not budgeted for.

Step Two. Set a date to go over this report in detail. Search for causes of variances. Ask yourself:

a. Was it your fault?

b. Was it some failure on his part?

c. Was it beyond anyone's control?

Then get his agreement on just how good his performance was and where he fell down.

Step Three. At this meeting, also, you can cover other things that may be on his mind. If he's so disposed, you might discuss such matters as relationships on the job, opportunity, job-related personal problems, and so on. But don't rush this. If he'd prefer, set another date for talking about these things.

Step Four. Set the stage for establishing the subordinate's performance budget for the coming year.

Reviewing Organization Performance and Defining Goals for the Coming Year

Here, of course, the manager finds himself back at Step One of the goal-setting stage, but better equipped by reason of his experience, to set more realistic goals for the next budget period.

Unfortunately, simply setting forth a stark outline of this type may give rise to the misleading impression that the installation of the system calls for no more than slavish adherence to the prescribed pattern. Actually, any mere statement of procedure overlooks the factors of time and judgment, and of the willingness to move with the deliberate speed required to overcome the cultural patterns that oppose the introduction of change.

Technical assistance teams in underdeveloped nations, industrial engineers in inefficient factories, and community development experts in rural America, have all had to learn the hard way that people everywhere cling to expectations that offer them fulfillment of the values they hold dear. In the executive suites of the nation, as in the villages of India, the natives are under the sway of gods, graves, ghosts, sacred books, and high priests. No procedure can sweep these aside with a weapon forged from the feeble material of logic alone. The procedure must allow for local customs and cultural idiosyncrasies and go forward at a

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Differentiation and Integration

Paul R. Lawrence and Jay W. Lorsch

It is no mystery that organizations must carry on transactions with their environment simply to survive, and, even more importantly, to grow. We identified the quality of these transactions as posing one of the fundamental developmental problems of any organization. Other analysts of organizational affairs have consistently mentioned transactions with the environment as a crucial if not the most crucial issue. It is an issue that has been dealt with extensively by economists and by specialists in business policy and strategy. They have dealt primarily with the content of these relationships—the actual kind and amount of goods, services, and funds that are part of these transactions. But the issue has not been extensively studied by specialists in the application of behavioral sciences, and attention has not been focused on such human aspects affecting the quality of these transactions as: What is the quality of the information exchanged across the organizational boundaries? What are the major determinants of the quality? What are its consequences? Such questions have been asked many times of the relations between individuals and groups within the organization, but the boundary-spanning relations have simply not been subjected to comparable scrutiny. It is not surprising therefore, that systematic efforts to diagnose and improve the quality of these organization-environment relations have also lagged behind the effort applied to improving internal relations. It is worth speculating about the reasons for this lack of attention.

Perhaps the focus has been placed on internal transactions because both parties to a faulty relation, being within the institution, tend to bring their troubles to a single source—their shared superior up the chain of command. This focuses attention on the costs of unsatisfactory work relations and triggers corrective action. There is less likelihood that this will happen in connection with boundary transactions. It is, moreover, not so easy to collect information about the status of the boundary-spanning relation since the outside participants may feel no obligation to cooperate. The relative neglect may also be due to the traditional division of labor between academic disciplines. It may be automatically assumed that economists are the experts on boundary transactions while the psychologist and the sociologist are expected to confine their efforts to internal relations. Even within business schools, it is traditional for the functional specialties, such as marketing and finance, to have exclusive concern with the quality of salesman-customer and treasurer-banker relationships. Only recently have such specialists drawn on behavioral disciplines to aid them in the study of these matters.

The authors themselves became involved in the study and improvement of relations at this interface by approaching the topic through the back door. We had been concerned for some years with the quality of intergroup relations in organizations. This interest led us to the observation that major groups in industry displayed some distinctive characteristics that persisted in spite of efforts from top management toward consistency. We came to the conclusion that this persistence could be accounted for if these groups needed these characteristics to conduct favorable transactions with the segment of the firm's environment with which they were especially involved. So, in order to account for some important sources of intergroup conflict, we began to study each group's relations with its special segment of the environment. Our research findings tended strongly to confirm our theory. This, in turn, led us into a new interest not only in understanding these transactions from a behavioral standpoint, but also in helping organizations and their managers diagnose the quality of these relations and improve them.

The Certainty-Uncertainty Continuum

Our research findings with specific relevance to this interface can be quickly summarized. We started our inquiry with the simple notion that the characteristics of an organizational unit would in some way need to match up with those of its segment of the environment if healthy transactional relations were to prevail. We were particularly interested in information flows across these boundaries. It seemed to us that if the sector of the environment involved was in a fairly steady, unchanging state, the amount and complexity of the information needed would be much less than if the opposite were true—namely, if there existed a high degree of uncertainty and change in the relevant part of the environment. As the environment varies along this certainty-uncertainty continuum, we expected to find matching differences in the organizational unit concerned if the transactions were to be sound. We identified four measurable features of groups that we thought might vary with the certainty-uncertainty of their parts of the environment. These were:

1. the degree of reliance on formalized rules and formal communication channels within the unit;
2. the time horizon of managers and professionals in the groups;
3. their orientation toward goals, either diffuse or concentrated; and
4. their interpersonal style, either relationship- or task-oriented.

Using measures of these four characteristics, we made a study of high- and low-performance companies in three different industries, and arrived at the specific conclusion that there was a closer fit in the high-performing organizations than in the low performers between the attributes of each unit and the demands of its relevant part of the environment.

One way to visualize the meaning of these findings is to think again in terms of information flows. In order to relate effectively to its environment, any organization must have reasonably accurate and timely information about the environment and especially about environmental changes. This is clearly an easier job if the environment is relatively stable. The job can be specified in a predetermined set of operating rules. The necessary messages can be handled through the traditional superior-subordinate channels, which may be few and constricted but are probably less subject to error and relatively inexpensive. Fairly short time horizons are usually adequate to take account of the reactions of such an environment to the firm's actions. This makes it sensible to use a straightforward, task-oriented approach in managerial style.

On the other hand, life in an organizational unit must become more complex in order to deal adequately with an uncertain and rapidly changing sector of the environment. To have more points of contact with the environment, a flatter organization is employed. Formal rules cannot be formulated that will be suitable for any appreciable time period, so it seems better not to rely heavily on them. More of an all-to-all communications pattern is indicated, which can keep environmental clues moving throughout the unit for interpretation at all points instead of just through superior-subordinate channels. A longer time orientation is usually needed. The growth of this necessarily more complex and sophisticated (as well as more costly) communication network is fostered by an interpersonal style that emphasizes building strong relationships rather than just accomplishing the task, per se.

Stability vs. Change in the Environment

Securing and processing relevant information from the environment, while highly critical, is not the only requirement for high-quality transactions at the organization-environment interface. In addition to exchanging information, people at these interfaces must frequently negotiate the terms of exchange of tangible goods and less tangible services of many kinds. These bargaining and/or problem-solving kinds of relationships can also be analyzed in terms of the findings of research. Fouraker has used his findings from experimental research to develop the idea that organizational units with different internal features are more or less effective depending upon whether their environment is characterized by harsh competition for scarce resources or by more beneficent circumstances. In a relatively unchanging environment, it is likely that time has brought more competitors into the struggle and that therefore resources are scarce. In this circumstance, he argues that the organizations which can conduct more favorable transactions will operate with tighter internal controls, more rules, and simpler channels of communication. In short, they will have closed ranks and geared up for a competitive fight. Again, it is a matching process.

At the other extreme is an organization unit dealing with a rapidly changing environment. The resources are plentiful and diverse, but the organization must be capable of creative and flexible problem-solving to discover potential opportunities for conducting more favorable transactions. Here again that unit will thrive which relies not on rules but on a more complex and flatter communication network which serves to stimulate new ideas. Such a unit would be oriented to a longer time perspective. It would thus be matched with the features of its environment as it works at solving the problem of defining and continually redefining the terms of its environmental transactions.

These, then, are the highlights of current research on the matching of organizational units with their respective sectors of the environment. Good matching seems to foster sound transactions at this organization-environment interface. In our research we studied this interface only for the important functions of sales, research, and production; but table 1 indicates how many additional interfaces of this type are relevant to most business organizations. Similar lists could be drawn for other types of organizations.

One of the ways of evolving an overall strategy for any organization is to develop within the organization the capacity to carry on fully adequate transactions at each of these important interfaces, with some special advantages in regard to one or two of them where a favorable exchange is possible. These are areas of "distinctive competence," to use Selznick's term. An organization in which each of its boundary-spanning units is well matched with its corresponding environmental sector is in a desirable position to detect opportunities for new kinds of favorable transactions with the environment and to anticipate newly developing hazards in the environment. This matching process is a highly flexible way to maintain the kind of continuous search that is recommended by a pioneering study recently conducted by Aguilar on how business firms scan their relevant environments.

Table 1

Organizational Unit	Relevant Environmental Sector
Sales	Customers and competitors
Research	Science and technology
Production and engineering	Technology and equipment suppliers
Purchasing	Suppliers
Finance	Financial institutions
Personnel	Labor and professional markets
Public relations	The press and legislative bodies
Legal	Governmental regulatory agencies

As the relevant environment changes, however, organizations not only need suitable matched units, but on occasion also need to establish new units to address emerging environmental facts and to regroup old units. For instance, the emergence of the computer as a new environmental fact has led many firms to create a new unit such as management-information services; and the development of newly relevant mathematical techniques has led to the emergence of operations-research groups and long-range planning groups. Such new groups not only draw together people with different technical skills, but also they often need different orientations, structures, and styles to transact their business successfully.

In addition, as firms grow in terms of product variety and geographical coverage, a need frequently arises to switch the first big structural division of work in the company from the traditional functional basis, implicit in our discussion so far, to some other basis. Valid arguments can be mustered for various choices of first-level structural division, but the soundest arguments will be based on environmental facts. For instance, if different geographical areas require quite different ways of marketing, while the products of a firm are quite similar technically, a first-level split by *geography* is usually indicated, and vice versa. If, on the other hand, the products and the geographical conditions are relatively homogeneous, an initial division by *function* is probably the soundest basis.

This analysis of differences and similarities needs to be complemented by an analysis of the intensity of the interdependencies between various units to find the best possible trade-off. Once the primary basis for structurally dividing work is selected, secondary means can be provided not only at lower levels but also by staff groups. In some instances where two factors, such as functions and products, are both highly different and critical, some firms, as in the aerospace industry, are turning to a matrix organization. In such an organization two bases are used simultaneously as a first-level division of labor.

We have seen that whether we view the environmental transaction primarily as a problem of information exchange or as one of bargaining and problem solving, we are pointed toward a matching of organizational traits and orientations with environmental features. We are now in a position to explain how we use this method of analysis as a practical tool in helping specific organizations improve the quality of their environmental transactions. We will do this by examining several specific cases.

The first set of cases involves situations where mismatches could be directly addressed by making adjustments in the internal arrangements of the unit concerned. A second set of cases will also be examined where other types of adjustments were needed to improve the matching process:

1. by releasing counterpressures in the organization for consistency among all units;
2. by adjusting units to accommodate shifts in the environment;
3. by creating new units to meet newly important environmental conditions; and
4. by realigning units to cope with the increased scope of the business.

In reviewing these cases emphasis will be given to the variety of variables in the organizational systems that were selected as the initial means of implementing planned change.

Before turning to the cases, however, we need to get a feel for the way problems at this interface are likely to first present themselves to managers and in turn to behaviorally-oriented consultants. Problems at the environment-organization interface are likely to manifest themselves eventually through economic results. For example, at the sales-customer interface, it is in a loss of sales volume; in research and development, it is in a drop in the flow of new products, etc. However, these indicators of interface trouble are fairly slow to show up, and managers learn to be sensitive to earlier clues of difficulty. These often take the form of complaints from the outside—letters from customers, a private word dropped at lunch by a banker, an important move by a competitor that caught everyone flatfooted. The customer may be saying that your organization is unresponsive, that you cannot seem to tailor your products to his needs, that he is getting tired of fighting his way through your red tape. In other cases, the concern will develop because a competitor seems too frequently to be first with a new-product introduction, or a new marketing technique. Perhaps in the production area it is a failure to realize economies through process innovation or falling behind in the race with rising wages and salaries. Another clue might be that the best specialists are not staying in the company—there is a worrisome amount of turnover among the more promising professionals in the physical or managerial sciences. These are the clues that might well be traced back to human problems at the environment-organization interface.

The Differentiation-and-Integration Model

The notions of differentiation and integration and associated concepts dealing with the management of intergroup conflict have been presented as a comprehensive conceptual model elsewhere. We want only briefly to summarize them here. In doing so, we need to emphasize two points.

1. The model is based on empirical study of ten organizations in three different environments. Further, these findings have been corroborated by our consulting activities in several additional settings.
2. The model is fully consistent with the view of organizations as systems. That is, instead of providing a universal prescription of the one best way to organize, it provides a framework, based on the demands of the organization's environment, by which we can understand what organizational characteristics are required if an organization is to perform effectively in its particular environment.

Differentiation

To understand the environmental demands on an organization, we start first by looking at how much differentiation should exist among the various groups. As already suggested, this depends upon what internal characteristics each group must develop to carry out planned transactions with its assigned part of the environment. More specifically, it depends primarily upon the extent to which the certainty of information within the various parts of the environment is similar or different. If these parts of the environment (e.g., the market, scientific knowledge, technoeconomic manufacturing factors) are fairly homogeneous in their degree of certainty, the units will need to be fairly similar in formal organizational practices and members' orientations. If these parts of the environment have quite different degrees of certainty, the units will need to be more differentiated. Our evidence indicates that these needed differences are not minor variations in outlook but, at times, involve fundamental ways of thinking and behaving.

Integration

This model focuses attention not only upon the degree of differentiation necessary but also upon the integration required among organizational units. We need to be concerned with two aspects of the integration issue: which units are required to work together and how tight the requirement is for interdependence among them. But there is a strong inverse relationship between differentiation and integration. As we have suggested, when units (because of their particular tasks) are highly differentiated, it is more difficult to achieve integration among them than when the individuals in the units have similar ways of thinking and behaving. As a result, when groups in an organization need to be highly differentiated, but also require tight integration, it is necessary for the organization to develop more complicated integrating mechanisms. The *basic* organizational mechanism for achieving integration is, of course, the management hierarchy. In organizations with low differentiation, we have found that this is often sufficient to achieve the required intergroup collaboration. However, organizations faced with the requirement for both a high degree of differentiation and tight integration must develop *supplemental* integrating devices, such as individual coordinators, cross-unit teams, and even whole departments of individuals whose basic contribution is achieving integration among other groups. By using this model, then, we are able to understand not only the pattern of differentiation and integration required to deal effectively with a particular environment, but also the formal structural devices needed to achieve this pattern.

Conflict Management Variables

This model also points to another set of variables which are important—the behavior patterns used to manage intergroup conflict. As individuals with different points of view attempt to attain unity of effort, conflicts inevitably arise. How well the organization will succeed in achieving integration, therefore, depends to a great extent upon how the individuals resolve their conflicts. Our work indicates that the pattern of behavior which leads to effective conflict resolution varies in certain respects depending upon environmental demands, and in other respects is the same *regardless* of variations in environmental demands.

Those conflict management factors which vary with environmental demands include the pattern of influence or power within and among groups. The influence within groups means the organizational level *at which influence or power resides* to make decisions leading to the resolution of conflict. If conflict is to be managed effectively, this influence must be concentrated at the point in the various group hierarchies where the *knowledge* to reach such decisions also exists. Obviously, this will vary depending upon the certainty of information in various parts of a particular environment. The required pattern of influence among groups also varies with environmental demands. The groups which have more critical knowledge about environmental conditions are the ones which need to have high influence in resolving intergroup conflict if the organization is to be effective in resolving such conflict.

The factors which lead to effective conflict-resolution under all environmental conditions are the mode of conflict resolution and the basis from which influence is derived. In organizations existing in quite different environments, we have found that effective conflict management occurs when the individuals deal openly with conflict and work the problem until they reach a resolution which is best in terms of total organizational goals. In essence, effective organizations confront internal conflicts, rather then smoothing them over or exercising raw power or influence to force one party to accept a solution.

In organizations dealing effectively with conflict, we have also found that the individuals primarily involved in achieving integration, whether they be common superiors or persons in coordinating roles, need to have influence based largely upon their perceived *knowledge and competence.* They are followed not just because they have formal positional influence, but because they are seen as knowledgeable about the issues which have to be resolved.

To summarize, the differentiation and integration model provides a set of concepts which enable us to understand what characteristics an organization must have to be effective in a particular set of environmental circumstances. It directs our attention to environmental demands on the organization in terms of the degree of differentiation, the pattern and degree of integration, integrative mechanisms, and conflict-resolving behaviors. In sum, it provides a way of understanding much of what needs to happen at both the organization-and-environment and group-to-group interfaces.

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What's Missing in MBO?

Paul Hersey and Kenneth H. Blanchard

Of all the management concepts and techniques that have been developed over the past decades, few have received such widespread attention as management by objectives (MBO). Managers in all kinds of organizational settings are attempting to run their organizations with MBO as a basic underlying management concept. Unfortunately, however, MBO success stories do not occur as often as anticipated by theorists who have written about MBO or practitioners who have applied it.

It is our contention that there has been a major missing link to more successful implementation of MBO: contracting for leadership style. In most MBO programs, an effort is made only to reach agreement on performance goals; there is little thought given to developing a psychological contract between the leader and the subordinates regarding the role of the leader in helping these subordinates accomplish their objectives.

Management by objectives, as it is practiced in most organizations, begins with agreement by superiors and subordinates of an enterprise on the common goals of the entire organization. At this time, any changes needed in the organization's structure—for example, changes in title, duties, or span of control—are made. Next, superior and subordinate independently propose time-oriented goals for the subordinate's job and the methods to be used to evaluate on-the-job performance. These are discussed and jointly agreed on by the superior and the subordinate. Checkpoints also are established: times when superior and subordinate together will compare the performance goals with what has actually been accomplished. If there is a discrepancy between the goals and the accomplishments, they discuss and determine the cause of the problem, then take steps to overcome it.

From *Managerial Review,* October 1974, pp. 25–32, by Paul Hersey and Kenneth H. Blanchard.

The Missing Link

The unique aspect of MBO is that superior and subordinate participate both in the establishment of performance goals and in the review or evaluation that takes place in relation to the agreed-upon goals. It has been found that participation in the formulation of objectives tends to make subordinates feel more personal responsibility for goal attainment and is thus more effective than having objectives imposed by an authority figure in the organization. The problem with MBO—and the reason why few effective implementations occur—is that the role of the leader in helping subordinates accomplish objectives is not clearly defined.

MBO could be a powerful tool for productivity improvement if superiors negotiated with their subordinates not only the goals toward which the subordinates would work but also the leadership style they would use to help their subordinates meet their objectives. Just as golfers, with the aid of their caddies, select a club depending on their lie on the course, so managers, with the help of their subordinates, should select the leadership style to be used according to the objectives and the needs of the subordinate in achieving the agreed-upon objectives. The Life Cycle Theory of Leadership—a situational leadership theory developed at Ohio University's Center for Leadership Studies—should help in this selection.

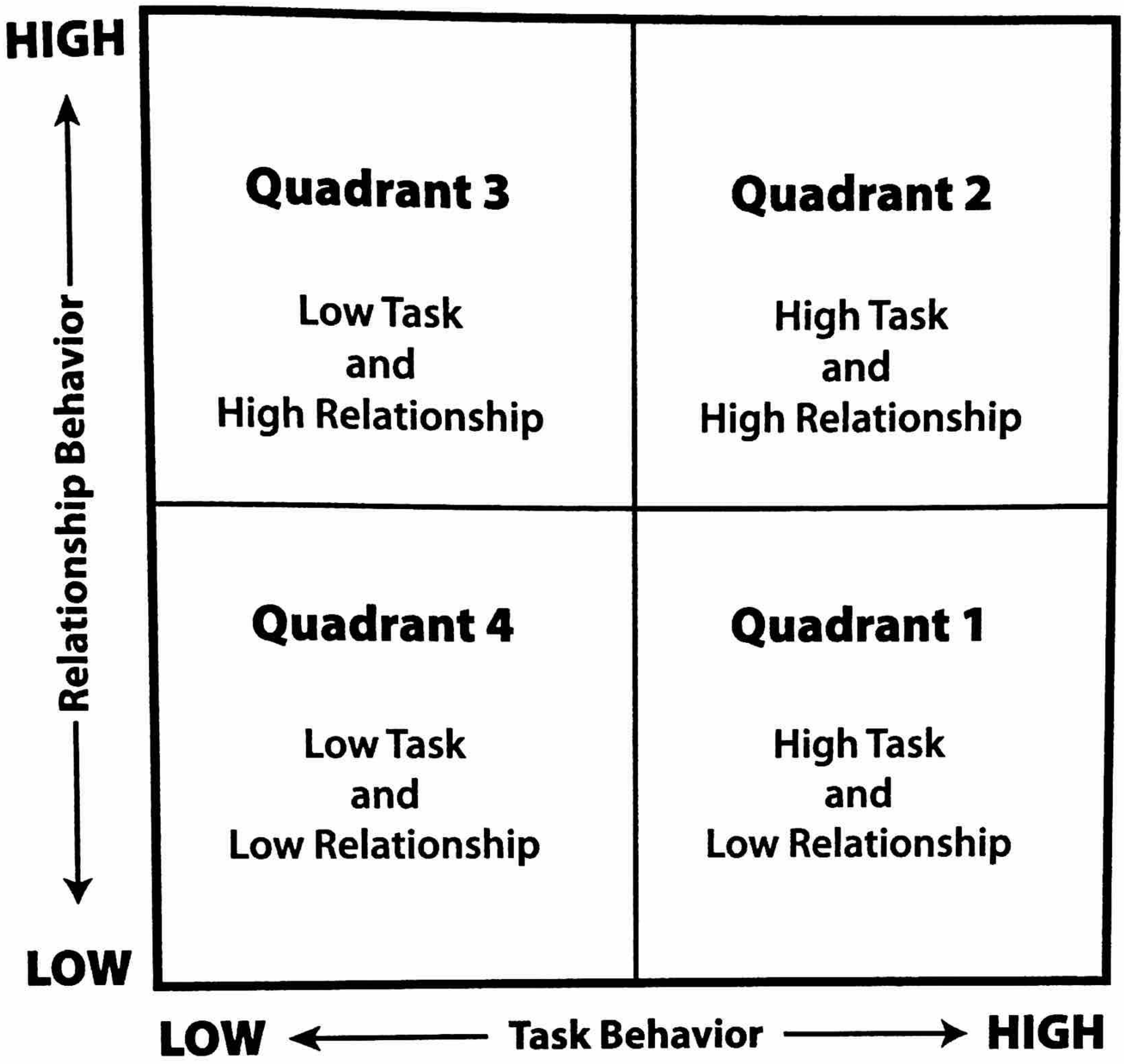
This theory grew out of earlier leadership models that were based on two kinds of behavior central to the concept of leadership style: *task behavior* and *relationship behavior.* Task behavior is the extent to which a leader explains what each subordinate is to do as well as when, where, and how tasks are to be accomplished. Relationship behavior is the extent to which a leader engages in behaviors such as emotional support, communication, facilitation, and interpersonal relations. The two dimensions of leader behavior, plotted on two separate axes, are shown in Figure 1.

Research in the last several decades has clearly indicated that there is no "best" style of leadership that can be universally applied. Thus, any of the four basic styles shown in Figure 1 may be effective or ineffective depending on the situation. The situational aspect of leadership is taken into consideration in the Life Cycle Theory of Leadership—which is based on the relationship among (1) task behavior—or the amount of direction a leader gives, (2) relationship behavior—or the amount of socio-emotional support a leader provides, and (3) the "maturity" of the leader's followers or group.

Maturity is defined in Life Cycle Theory as the capacity to set high but attainable goals, the willingness and the ability to take responsibility, and the education and/or experience of an individual or a group. These variables of maturity should be considered in relation to a specific task to be performed. A salesperson may be very responsible in closing sales but very irresponsible when it comes to completing the paperwork that has to be filed on every sale.

According to Life Cycle Theory, as the level of maturity of one's followers *increases* in terms of accomplishing a specific task, leaders should begin to *reduce* their task behavior and *increase* their relationship behavior until the individual or the group is sufficiently mature for the leaders to *reduce* their relation-

Figure 1
Basic Leader Behavior Styles



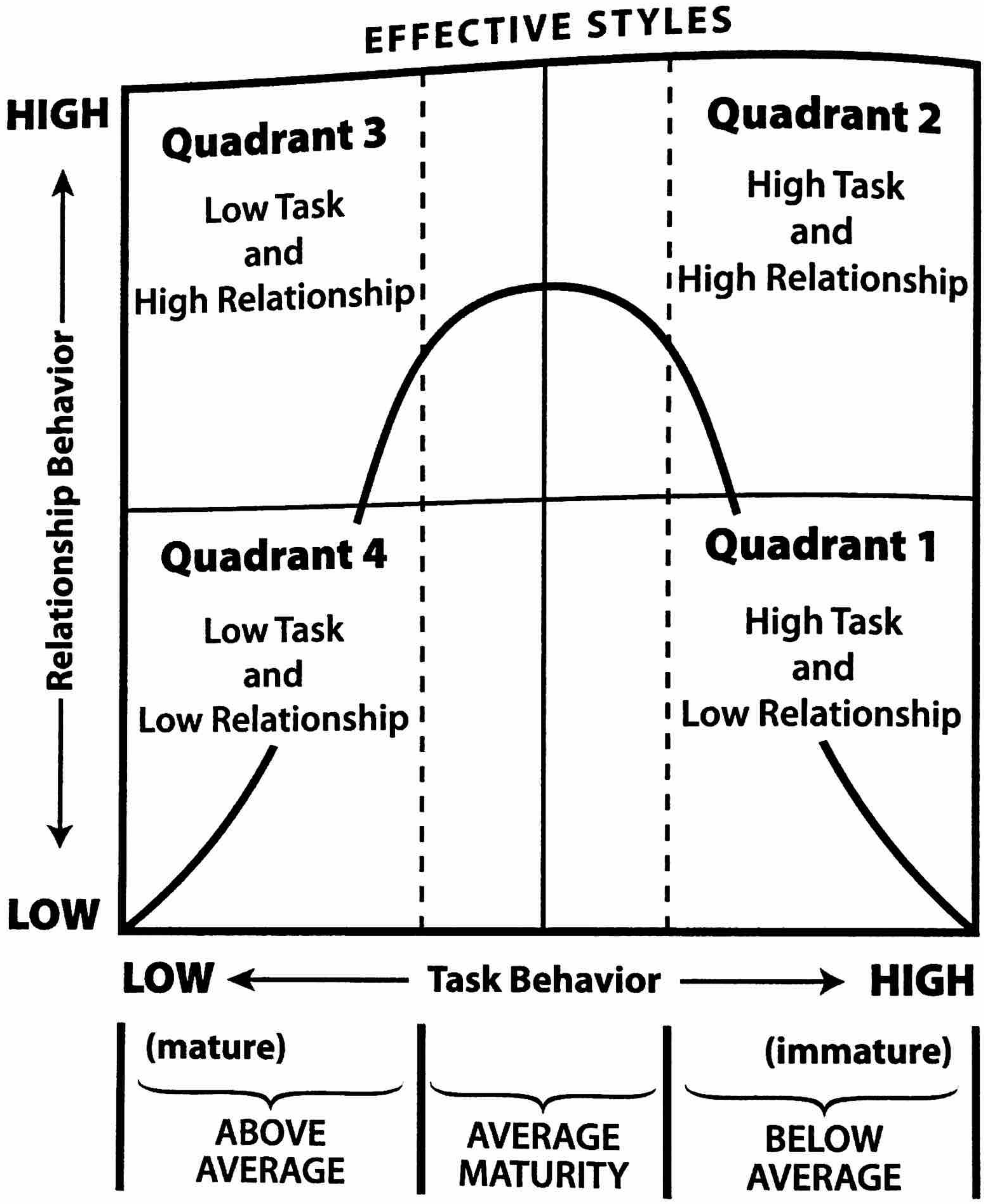
ship behavior as well. This cycle is illustrated in Figure 2 by the bell-shaped curve going through the four leadership quadrants.

Benchmarks of maturity are provided for determining appropriate leadership style by dividing the maturity continuum into three categories—below average, average, and above average. When working with people of below average maturity in terms of accomplishing a specific task, a high-task style (quadrant 1) has the best possibility of success. Moderate-task and moderate- to high-socio-emotional styles (quadrants 2 and 3) appear to be most appropriate in dealing with people who are of average maturity in terms of accomplishing a specific task, while low-task and low-relationship styles (quadrant 4) have the best possibility of success in working with people of above average maturity.

Modifying Levels of Maturity

In attempting to help an individual or a group mature—that is, to take on more and more responsibility for a specific task—a leader should be careful not to delegate responsibility and/or increase socio-emotional support too rapidly. If the leader does either of these things, the individual or the group can take advantage and view him as a "soft touch." The leader should slowly develop the capability of subordinates on each task, using less task behavior and more relationship behavior as they mature and become more willing and able to assume responsibility.

Figure 2
Life Cycle Theory of Leadership



Also, to obtain the desired behavior, a leader should reward as soon as possible behaviors exhibited by the individual in the desired direction and continue this process as the individual's behavior comes closer and closer to the leader's expectations of good performance. For example, suppose a sales manager wants to move a salesperson through the cycle so that he or she assumes significantly more responsibility. If the salesperson is normally very dependent on the manager to close a sale, the sales manager's best bet initially is to reduce some of the structure or close supervision by giving the salesperson the opportunity to assume some responsibility for, say, setting up the closing meeting. If this is done well, he should reinforce the behavior with increases in socio-emotional support or relationship behavior.

This process should continue until the salesperson is assuming significant responsibility and performing as a mature individual in closing sales. This does not mean that the salesperson's work will have less structure, but rather that the structure will now be internally imposed by the individual instead of being externally imposed by the sales manager. The cycle would be depicted in Figure 2 as a backward-bending curve moving into quadrant 4 (low-task behavior and low-relationship behavior). The salesperson is able not only to structure many of the activities in which he is engaged, but also to provide his own satisfaction for interpersonal and emotional needs. At this stage of maturity, individuals are positively reinforced for their accomplishments by the leader's *not* looking over their shoulder on a specific task and leaving them more and more on their own.

Of course, when people begin to behave less maturely for whatever reason—say, a crisis at home or a change in work technology—the leader should adjust behavior backward through the curve to meet the present maturity of his or her group. Suppose, for example, that a salesperson who is presently working well alone faces a family crisis that begins to affect performance on the job. In this situation, it may be necessary for the manager to increase structure and socio-emotional support until the individual regains composure.

Negotiating for Leadership Style

In the case of MBO, once a superior and a subordinate have agreed upon certain goals for the subordinate, the next logical step (but not often used) is for both parties involved—the superior and subordinate—to negotiate the appropriate leadership style that the superior will use in helping the subordinate accomplish each objective. The subordinate should participate in this selection not only because it will increase his feeling of personal responsibility for goal attainment but also because he can bring input to the decision making that will help in the selection of the appropriate leadership style.

Failure to select the right leadership style can lead to problems. For example, if the superior uses a low-task, low-relationship leadership style and leaves the subordinate completely alone in an area where the subordinate lacks sufficient technical skill and knowhow, the result may be failure—and the superior may not know about it until the next interim check period. Conversely, if a leader continually hovers over and directs the activities of subordinates working in areas where they are competent and capable of working alone, that leader may alienate them.

In areas where a subordinate is experienced and has been successful in accomplishing similar objectives over a period of time, superior and subordinate should negotiate a contract calling for the boss to leave the subordinate on his or her own. Rather than direct and closely supervise the subordinate, the boss should make sure that the resources necessary for accomplishing the goal are available and should coordinate the results of the project with other projects under his or her supervision. In those instances where the subordinate is working on a project with which he or she has very little experience and the boss does have some expertise, the subordinate and the superior should negotiate significant structure, direction, and supervision from the boss until the subordinate is familiar with the task. For a subordinate to accomplish every agreed-upon goal, a boss may have to use a variety of leadership styles depending on the subordinate's maturity in relation to the specific tasks involved.