

# STRATEGIC MANAGEMENT AND MANAGEMENT BY OBJECTIVES

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## ABSTRACT

No clear understanding of Management by Objectives in relation to Strategic Management has emerged in the literature. This paper attempts to point out the complexities surrounding Management by Objectives, and how the evolution of Strategic Management as a group process supersedes MBO as a system of planning, implementation, obtaining feedback, evaluating and controlling the functions for all types of businesses.

## PURPOSE

This paper has been written to address problems in business planning that has perplexed american business for the last thirty years. MBO systems became prominent in the sixties, seventies, and eighties, but as the U.S. economy faltered in the seventies, it became apparent that many businesses were not prepared for the many changes taking place in their industries and in the remote environment despite attempts to formulate objectives. Many businesses attempted to plan and adapt using MBO programs with questionable success. Other businesses instituted corporate planning with some measure of success. However, many businesses did not plan or if they did plan, few moved to a group planning process. This paper addresses MBO and strategic management planning in an attempt to sort out the state of the literature and the differences between MBO and strategic management, particularly in regard to group processes.

## INTRODUCTION

Since the nineteen fifties management by objectives (MBO) has been a vehicle for motivation, evaluation and control for many businesses both small and large. The program features a systematic approach to change that stresses the achievement of results by directing individual efforts toward attainable objectives. These efforts involved agreed upon objectives between the supervisor and the subordinate. Once objectives are agreed upon the subordinate implements the activities to achieve the desired results, while the supervisor periodically evaluates, and hopefully, clarifies the path for the subordinates. These meetings emphasized two person relationships, which enhance individual growth on one hand, but may have provided counterproductive results given the culture of the organization and the recent

development of strategic management systems.

Today, many corporations have embraced a form of MBO and at the same time these same corporations have more recently adopted strategic management, as a process of motivation and control. They have not realized that past MBO approaches to organizational change focus on the individual and the short term whereas the strategic management (Business Planning) process also embraces the long term and keys off the group process.

By examining the literature surrounding MBO and then examining the structure and studies that support strategic management, we can clarify the status of MBO systems within an organization that practices strategic planning.

## REVIEW OF THE LITERATURE

In his book the Practice of Management, Peter Drucker first drew attention to management by objectives (1). Since the book introduced management by objectives, MBO has been accepted and implemented in many businesses: General Motors, General Electric, General Foods, Quaker Oats and others, both large and small.

Businesses instinctively bought into MBO because it forces management to plan both rationally and systematically, rather than by relying on guesses or crisis management. The results from MBO programs have generated a rich literature that hasn't been able to entirely identify a model for a successful MBO program, but the strengths and weaknesses of MBO are numerous. One of the best reviews on the strengths of MBO programs is reported by Henry J. Tosi and Stephen J. Carroll (2).

1. MBO stresses collaborative efforts between managers and subordinates which aids in planning.
2. MBO lets subordinates know what is expected of them by forcing managers and subordinates to establish attainable objectives within specified periods of time.
3. MBO improves communication between managers and subordinates and makes individuals cognizant of organizational objectives and goals.
4. MBO improves the performance review and evaluation process by focusing on results and by providing systematic feedback.

To insure the success of MBO there are several important considerations cited by a number of

authors. MBO programs require top managers to provide clear and visible support to the program (3). Without the support the synthesis between the individual and the organizational goals does not develop.

Another author found that performance and satisfaction increased where challenging, attainable goals were set, that provided specific and frequent feedback (4). Despite the clarity of the system and the support from the practice of MBO little empirical evidence emerges to clearly indicate that MBO improves performance. Why! First, in many businesses, MBO has failed to integrate their objectives into a team approach, whereby employee objectives were tied into overall company goals and horizontally communicated to other employees. Vertical communications between the supervisor and subordinate dominated the programs. This has been consistent with a traditional top to bottom approach in managing, and in most instances MBO further reinforced the traditional culture of most organizations. Here control rather than creativity was emphasized. Secondly, MBO focused on problems that were part of the bureaucratic process, but only covered 10-15% of a person's responsibilities on a quarterly or yearly basis. Thirdly, management proceeded to tie MBO to performance evaluations. These performance evaluations are as beloved as a traffic ticket; these evaluations are then used for promotion, salary increases and remedial action. Counterproductive results are common. Challenging objectives are eliminated, and all the problems surrounding performance evaluation such as leniency error, central tendency, the halo effect, bias, seniority, recency and other problems become a part of the program. Finally, MBO can simply cause red tape and a enormous paper shuffle.

In reviewing the effectiveness of MBO the literature indicates that many businesses accepted MBO on faith without understanding the intricacies of the complete system. In reviewing 185 articles, Jack N. Kondrasuk found "There is little empirical evidence to demonstrate the impact of MBO on any aspect of organizational or individual behavior including job performance." Furthermore, he states "There are tendencies for MBO to be more effective in the short term (2 years or less) in the private sector and in organizations removed from direct contact with the customer" (5). Apparently, MBO can be effective, but the question is under what circumstances? A number of authors including Drucker suggested not just a one and one approach to MBO, but a team approach (6). This suggestion and others are briefly summarized by Wendell L. French and John A. Drexler, Jr. in an article published in 1984 (7). Here the advantages of a team MBO approach are identified. In addition, to vertical communication between the supervisor and the subordinates horizontal communication among employees is also necessary (8). A participating climate or culture and mutual support by team members are necessary requirements for team MBO (9). While the literature appears to support a team approach using MBO, little information is available on the success or failure of

a group process and MBO. Some authors have suggested merging MBO with organizational development efforts which are consistent with Likert's system four (10). Despite the academic thrust to join MBO and group processes, many barriers exist. The culture, values, strategies, management style, skills, systems, structures, staffing, the input, output and technological environments all enter the picture either enhancing productivity and organizational development or hindering the performance within a business. All these variables need consideration, but there has been little guidance in the MBO literature on how to adjust and match these variables. Hence, we then find that an MBO process becomes extremely complicated and may conflict with the development and implementation of strategic management as a process. What is strategic management? How does it in fit with an MBO System?

## STRATEGIC MANAGEMENT

Strategic Management and MBO are two different systems. Strategic Management expands upon organizational goals by setting up a mission statement that not only spells out broad organization goals and objectives, but provides direction and purpose for the firm by considering the customers, target groups, quality, type of product, and the technological considerations surrounding the program. The statement further sets the tone for the mission of the business by communicating the philosophy of management and the values of management. When compared to MBO, strategic management takes a much broader, and yet, more detailed approach to the direction of the business, its culture, and leadership by matching the external environment with the resources of the firm. Here strategies and objectives are formed and implemented. While the MBO process traditionally rests upon the relationship between the subordinate and the supervisor, the strategic management process relies upon a team approach that flows from the corporate level to the functional level of the business. The process relies on input from all levels of management (top to bottom and bottom to top) and for the small business the process would include the many other outside sources necessary for good business planning, such as accountants, lawyers, and others.

Clearly, MBO and strategic management appears in the literature as two different systems. Can we find any empirical evidence to support strategic management as a process?

## STRATEGIC MANAGEMENT RESEARCH

From the research on the values of strategic management a number studies have indicated strategic financial planning increases performance, as compared to financial performance before planning. Thume and House studied 36 firms in six different industries: petroleum, food,

drug, steel, chemicals and machinery. They found planners out performed non-planners (11). In 1972 Herold replicated a part of the Thume & House study and his research supports their research (12). In 1974 Schoffler, Buzzell and Heany measured profit impact using PIMS (Product Impact Market Studies) (13) and found return on investment was significantly affected by market share. Again in 1975 Karger and Malik found strategic planners out performed non-planners (14). In studying 101 small businesses, R.B. Robinson, Jr. found sales, profitability and productivity improved when compared to firms without systematic planning activities (15). Despite research on planning little evidence has emerged to support a total group process for planning. The research more or less supports financial planning as opposed to a total strategic management process based upon the group. In fact, many businesses find planning becomes an intuitive process. In a article entitled "The Renewal Factor," (16) Robert Waterman indicated many planning decisions were not subject to any formal planning process. Therefore, what conclusion can we generate regarding planning and MBO?

## MBO AND SMALL BUSINESS

Available information on MBO and small business remains elusive, but the wide spread use of MBO suggests that both large and small businesses have practiced MBO. In fact, over one half the businesses in the United States have implemented MBO programs (17). In many business situations these MBO systems can provide a degree of autonomy for employees and permit small business owners to work on the more critical aspects of their business plans. Here owners and supervisors can agree to specific objectives that are operational in nature, short term in orientation, measurable and accurate. In many small businesses these operational objectives can lend themselves to weekly staff meetings rather than quarterly, semi-annual and annual meetings. Monitoring and control by the small business owner becomes systematic and generates employee autonomy, responsibility and hopefully, creativity. At the same time, these objectives should tie into the business plan and provide a foundation for developing organizational flexibility and capability and a team building approach.

## CONCLUSION

Although MBO and strategic management have produced some empirical evidence to support financial planning the results do not indicate whether these businesses embraced a total strategic management process that includes a team approach. According to Thume and Herold planners improved financial results. On the other hand, MBO has not produced any increases in performance that tied back to their MBO program.

However, the MBO literature early on has suggested team MBO to facilitate change, but

significant research on team MBO appears nonexistent (18) (Reddin 1971 and Molancer 1971). However, others have recognized the need to integrate MBO into organizational development (Hilmar 1975) (19). Here the management style and culture become variables that need attention and adjustment along with strategies, objectives, systems, structures, staffing and others for developing and refining a business plan. At this point, a replication of Robinson's 101 small retail, service and manufacturing firms could provide more substantial support for business planning. For larger firms that have moved toward participatory (group) management entirely new research needs to be instituted to measure the impact of group planning as opposed to financial planning or non-planning.

Despite the need for further research on strategic management the trend toward strategic planning appears significant. MBO should be dropped by businesses, or integrated into a total strategic management process of planning, implementation, feedback, evaluation and subsequent change and adaptation. A team approach needs consideration, observation and development. By using strategic management models present in most text books, we can move beyond MBO.

Today, without a group process MBO systems provide insufficient impact to warrant their continuation. In fact, some businesses still have not recognized that MBO and strategic planning should be merged rather than run as two separate systems. By merging the systems, conflicts, red tape, and other weaknesses of MBO can be eliminated.

At the same time the company can clarify the benefits of a group process for strategic planning which in turn should promote participatory management, trust, loyalty, an open, flexible culture and management style.

Similarly, for smaller businesses the strategic management process can work utilizing their business plans. The process for the small business not only embraces employees, but MBO can develop a team approach using short operational oriented objectives that promote business development without ignoring the input from many outside consultants, lawyers, accountants, insurance agents and others that are needed to develop and implement a successful business plan.

Yes, MBO can be expanded, but MBO does not provide complete strategic management. MBO can be accomplished on a group basis, but again strategies, structures, staffing, the external environment and other variables need attention. We need to view the total picture not just a variety of objectives that focus on part of the process.

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