

ESSENTIALS OF MANAGEMENT: An International Perspective

Chapter 4: Essentials of Planning and Managing by Objectives

After studying this chapter, you should understand:

1. What managerial planning is and why it is important.
2. The various types of plans and show how they relate to one another.
3. The logical steps in planning and see how these steps are essentially a rational approach to setting objectives and selecting the means of reaching them.
4. The nature of objectives.
5. The evolving concepts in management by objectives (MBO)
6. The model of the systems approach to MBO.
7. How verifiable objectives can be set for different situations.
8. The benefits of MBO.
9. The weaknesses of MBO and ways to overcome them.

Definition of Planning

- **Planning** involves selecting missions and objectives and the actions to achieve them; it requires decision making, that is, choosing from among alternative future courses of action

Types of Plans

Plans can be classified as

- (1) mission or purposes,
- (2) objectives or goals,
- (3) strategies,
- (4) policies,
- (5) procedures,
- (6) rules,
- (7) programs, and
- (8) budgets

Types of Plans

- The **mission**, or **purpose**, identifies the basic purpose or function or tasks of an enterprise or agency or any part of it
- **Objectives**, or **goals**, are the ends toward which activity is aimed
- **Strategy** is the determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals
- **Policies** are general statements or understandings that guide or channel thinking in decision making
- **Procedures** are plans that establish a required method of handling future activities

Types of Plans – cont.

- **Rules** spell out specific required actions or nonactions, allowing no discretion
- **Programs** are a complex of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a given course of action
- A **budget** is a statement of expected results expressed in numerical terms

Steps in Planning

1. Being Aware of Opportunities
2. Establishing Objectives or Goals
3. Developing Premises
4. Determining Alternative Courses
5. Evaluating Alternative Courses
6. Selecting a Course
7. Formulating Derivative Plans
8. Quantifying Plans by Budgeting

Verifiable Objectives

- **Objectives** are the important ends toward which organizational and individual activities are directed
- An objective is **verifiable** when at the end of the period one can determine whether or not the objective has been achieved

The Nature of Objectives

- Hierarchy of Objectives
 - **Key Results Areas:** Areas in which performance is essential for success
- Setting objectives and the organizational hierarchy
- Multiplicity of objectives

How to Set Objectives

Nonverifiable Objectives

1. To make a reasonable profit
2. To improve communication
3. To improve productivity of the production department
4. To develop better managers
5. To install a computer system

How to Set Objectives

Verifiable Objectives

1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To issue a two-page monthly newsletter beginning July 1, 2005 involving not more than 40 working hours of preparation time (after the first issue)
3. To increase production output by 5% by December 31, 2005 without additional costs and while maintaining the current quality level
4. To design and conduct a 40-hour in-house program on the “fundamentals of management,” to be completed by October 1, 2005 involving not more than 200 working hours of the management development staff and with at least 90% of the 100 managers passing the exam (specified)
5. To install a computerized control system in the production department by December 31, 2005 requiring not more than 500 working hours of systems analysis and operating with not more than 10% downtime during the first 3 months nor 2% thereafter

Guidelines for setting objectives

1. Do the objectives cover the main features of my job?
2. Is the list of objectives too long? If so, can I combine some objectives?
3. Are the objectives verifiable; that is, will I know at the end of the period whether or not they have been achieved?
4. Do the objectives indicate:
 - (a) Quantity (how much)?
 - (b) Quality (how well, or specific characteristics)?
 - (c) Time (when)?
 - (d) Cost (at what cost)?
5. Are the objectives challenging, yet reasonable?
6. Are priorities assigned to the objectives (ranking, weighing, etc.)?

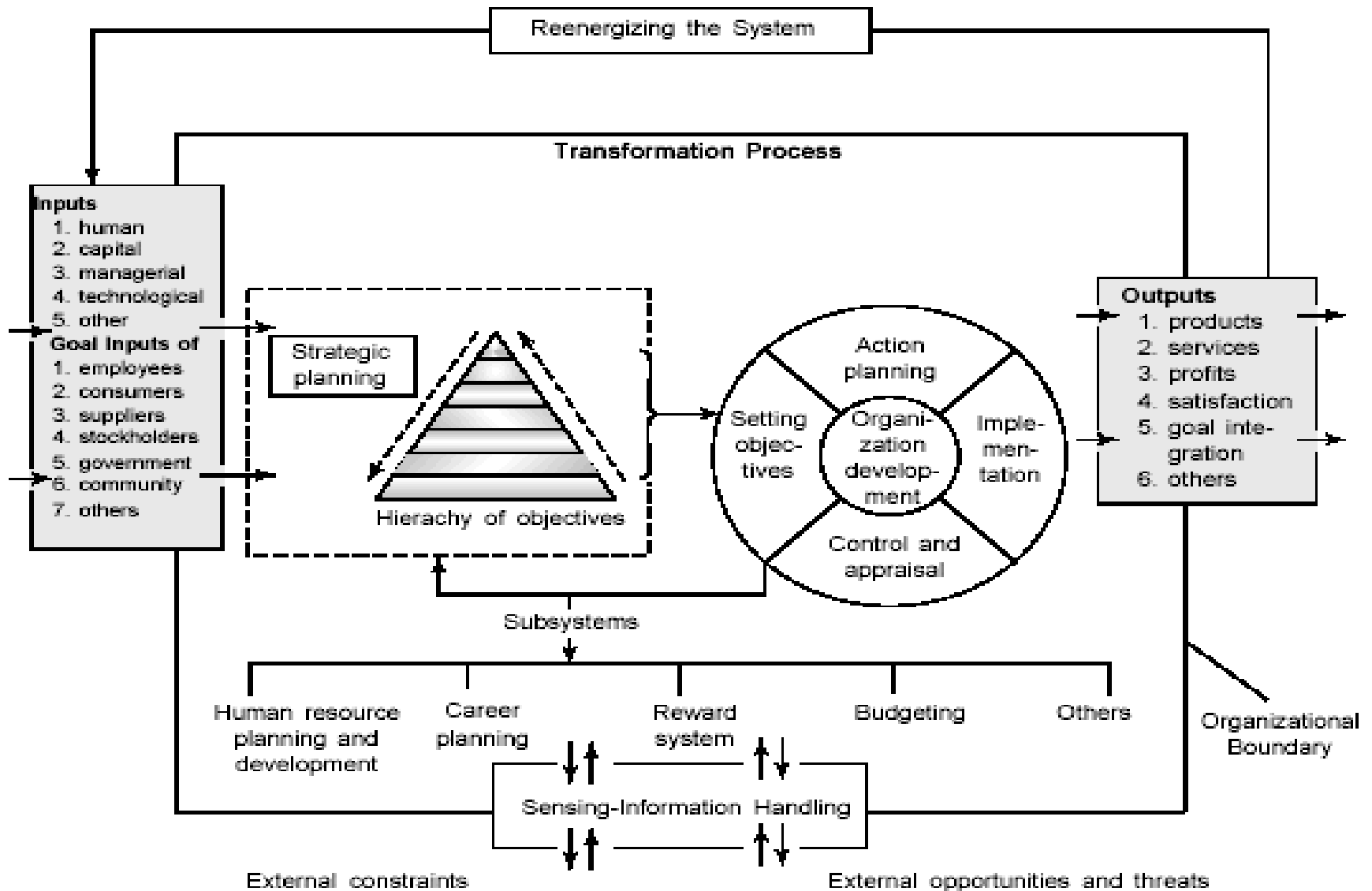
Guidelines for setting objectives..cont

7. Does the set of objectives also include:
 - (a) Improvement objectives?
 - (b) Personal development objectives?
8. Are the objectives coordinated with those of other managers and organizational units?
Are they consistent with objectives of my superior, my department, the company?
9. Have I communicated the objectives to all who need to be informed?
10. Are the short-term objectives consistent with long-term aims?
11. Are the assumptions underlying the objectives clearly identified?
12. Are the objectives expressed clearly, and are they in writing?
13. Do the objectives provide for timely feedback so that I can take any necessary corrective steps?
14. Are my resources and authority sufficient for achieving the objectives?
15. Have I given the individuals who are expected to accomplish objectives a chance to suggest their objectives?
16. Do my subordinates have control over aspects for which they are assigned responsibility?

Evolving Concepts in MBO

- MBO as used in this book
- **Management by objectives** is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed toward the effective and efficient achievement of organizational and individual objectives

Systems Approach to MBO



Benefits of Management by Objectives

Clear goals:

- Motivate
- Improve managing through results-oriented planning
- Clarify organizational roles, structures and the delegation of authority
- Encourage personal commitment to their own and organizational goals.
- Facilitate effective controlling, measuring results, and leading to corrective actions

Failures of Management by Objectives

- List some failures and limitations of MBO
- What would you do to overcome the failures?