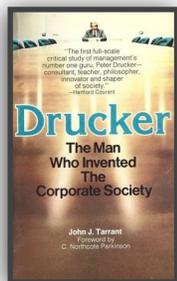


1 **25 Management by Objectives and Self-Control**

2 by [Peter Drucker](#) contained in [Management, Revised Edition](#)



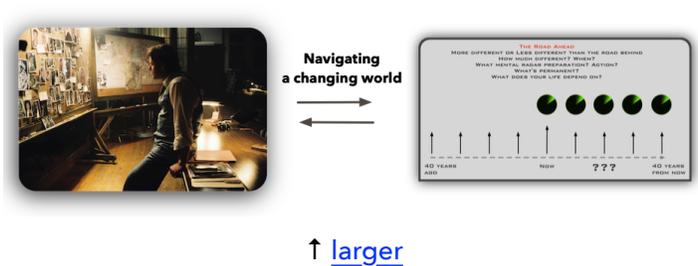
4 How is it possible ↓

5 to works toward horizons ↑ ↓

6 that aren't on your mental radar –

7 at the right point in time? ↓

8



10 [Thinking Broad and Thinking Detailed](#) ↑ ↓

11 [Intelligence, Information, Thinking](#)

12 ■ "Most of the mistakes in thinking are mistakes in perception.

13 ❖ Seeing only part of the situation – [broad](#)

14 ❖ Jumping to conclusions

- 15 ❖ Misinterpretation caused by feelings" – [Edward de Bono](#)
- 16 ■ Awareness without [action](#) is useless
- 17 The [MEMO](#) they – the [enemies of the future](#) – don't want you to [SEE](#)
- 18 «\$\$\$»
- 19 Each member of the enterprise contributes something different, but all must contribute toward a common goal.
- 20 Their efforts must all pull in the same direction, and their contributions must fit together to produce a whole—without gaps, without friction, without unnecessary duplication of effort. ...
- 21 Every job in the company must be directed toward the objectives of the whole organization if the overall goals are to be achieved.
- 22 In particular, each manager's job must be focused on the success of the whole.
- 23 The performance that is expected of managers must be directed toward the performance goals of the business.
- 24 Results are measured by the contribution they make to the success of the enterprise.
- 25 Managers must know and understand what the business goals demand of them in terms of performance, and their superiors must know what contribution to demand and expect.
- 26 If these requirements are not met, managers are misdirected and their efforts are wasted. ...

27 Management by objectives requires major effort and special techniques.

28 In a business enterprise managers are not automatically directed toward a common goal.

29 ***[Four factors that tend to misdirect]***

30 On the contrary, organization, by its very nature, contains four factors that tend to misdirect:

- 31 1. the specialized work of most managers,
- 32 2. the hierarchical structure of management,
- 33 3. the differences in vision and work and the resultant isolation of various levels of management, and
- 34 4. the compensation structure of the management group. ...

35 To overcome these obstacles requires more than good intentions.

36 It requires policy and structure.

37 It requires that management by objectives be purposefully organized and be made the living law of the entire management group.

38 **The Specialized Work Of Managers**

39 An old story tells of three stonecutters who were asked what they were doing.

40 The first replied, "I am making a living."

41 The second kept on hammering while he said, "I am doing the best job of stone-cutting in the entire country."

42 The third one looked up with a visionary gleam in his eyes and said, "I am building a cathedral." ...

- 43 The third man is, of course, the true manager.
- 44 The first man knows what he wants to get out of the work and manages to do so.
- 45 He is likely to give a "fair day's work for a fair day's pay."
- 46 But he is not a manager and will never be one.
- 47 It is the second man who is the problem.
- 48 Workmanship is essential—an organization demoralizes if it does not demand of its members the highest workmanship they are capable of.
- 49 But there is always a danger that the true workman, the true professional, will believe that he is accomplishing something when, in effect, he is just polishing stones or collecting footnotes.
- 50 Workmanship must be encouraged in the business enterprise.
- 51 But it **must always be related to the needs of the whole.** ...
- 52 Most managers and career professionals in any business enterprise are, like the second man, concerned with specialized work.
- 53 A person's habits as a manager, his vision and values, are usually formed while he does functional and specialized work.
- 54 It is essential that the functional specialist develop high standards of workmanship, that he strive to be "the best stonecutter in the country."
- 55 For work without high standards is dishonest; it corrupts the worker and those around him.
- 56 Emphasis on, and drive for, workmanship produces innovations and advances in every area of management. ...

- 57 That managers strive to do the best job possible—to do “professional human resource management,” to run “the most up-to-date plant,” to do “truly scientific market research” must be encouraged.
- 58 But this striving for professional workmanship in functional and specialized work is also a danger.
- 59 It tends to divert the manager’s vision and efforts from the goals of the business.
- 60 The functional work becomes an end in itself.
- 61 In far too many instances the functional managers no longer measure their performance by its contribution to the enterprise but only by professional criteria of workmanship.
- 62 They tend to appraise subordinates by their craftsmanship and to reward and to promote them accordingly.
- 63 They resent demands made for the sake of organizational performance as interference with “good engineering,” “smooth production,” or “hard-hitting selling.”
- 64 The functional manager’s legitimate desire for workmanship can become a force that tears the enterprise apart and converts it into a loose association of working groups.
- 65 Each group is concerned only with its own craft.
- 66 Each jealously guards its own “secrets.”
- 67 Each is bent on enlarging its own domain rather than on building the business.
- 68 *The remedy is to counterbalance the concern for craftsmanship with concern for the common goal of the enterprise.*

69 **Misdirection By Hierarchy**

- 70 The hierarchical structure of management makes the danger even greater.

- 71 Because of his rank, whatever the boss does and says—his most casual remarks, his habits, even his mannerisms—tend to appear to his subordinates as calculated, planned, and meaningful.
- 72 “All you ever hear around the place is human-relations talk; but when the boss calls you on the carpet, it is always because overtime is too high; and when it comes to promoting a guy, the plums always go to those who do the best job filling out accounting-department forms.”
- 73 This is one of the most common tunes, sung with infinite variations, at every level of management.
- 74 It leads to poor performance—even in cutting overtime.
- 75 It also expresses loss of confidence in, and absence of respect for, the company and its management. ...
- 76 Yet the manager who misdirects subordinates in this way does not intend to do so.
- 77 He genuinely considers human relations to be the most important task of his plant managers.
- 78 But he talks about overtime because he feels that he has to establish himself with his men as a “practical man,” or because he thinks that he shows familiarity with their problems by talking “shop” with them, by expressing concern for their workload.
- 79 He stresses the accounting-department forms only because they annoy him as much as they do his men—or he may just not want to have any more trouble with the controller than he can help.
- 80 But to his subordinates these reasons are hidden; all they see and hear is the question about overtime, the emphasis on forms. ...

81 The solution to this problem requires a structure of management that focuses the eyes of managers and their bosses on what the job—rather than the boss—demands.

82 To stress style and manner is likely, instead, to worsen the problem.

83 Indeed, everyone familiar with organizations today has seen situations in which a manager's attempt to avoid misdirection through changing his style has converted a fairly satisfactory relationship into a nightmare of embarrassment and misunderstanding.

84 The manager himself becomes so self-conscious as to lose all easy relationship with his people.

85 And his people, in turn, react with, "So help us, the old man has read a book; we used to know what he wanted of us, now we have to guess."

86 **Misdirection can result from a difference in concern between various levels of management.**

87 This problem, too, cannot be solved by attitudes and good intentions; for it is rooted in the structure of any enterprise.

88 Nor can it be solved by "better communications," for communications presuppose common language, and it is precisely that which is usually lacking. ...

89 It is no accident that the old story of the blind men meeting up with an elephant on the road is so popular among management people.

90 Each level of management sees the same "elephant—the business—from a different angle of vision.

91 The supervisor in operations, like the blind man who felt the elephant's leg and decided that a tree was in his way, tends to see only the immediate operations problems.

92 Top management—the blind man touching the trunk and deciding a snake bars his way—tends to see only the enterprise as a whole.

93 It sees shareholders, financial problems, altogether a host of highly abstract relations and figures. ...

94 Operating management—the blind man feeling the elephant's belly and thinking himself up against a landslide—tends to see things functionally. ...

95 Each level needs its particular vision; it could not do its job without it.

96 Yet, these visions are so different that people on different levels talking about the same thing often do not realize it—or, as frequently happens, believe that they are talking about the same thing when in reality they are poles apart.

97 **Misdirection By Compensation**

98 The most serious force for misdirection within the management group may be the pay structure.

99 At the same time, it is the hardest one to remove.

100 Somehow management people have to be paid, but every compensation system is liable to misdirect. ...

101 Compensation is cost to the enterprise and income to the recipient.

102 It also always expresses status, both within the enterprise and in society.

103 It entails judgments on the managers' worth as much as on their performance.

- 104 It is emotionally tied to all our ideas of fairness, justice, and equity.
- 105 Money is, of course, quantitative.
- 106 But the money in any compensation system expresses the most intangible, but also the most sensitive, values and qualities.
- 107 For this reason, there can be no truly simple or truly rational compensation system. ...
- 108 Any compensation system determines a person's place within the group.
- 109 How one's pay relates to the pay of others, and especially to the pay of one's peers, is always more important than the absolute amount of the salary.
- 110 Compensation must always try to balance recognition of the individual with stability and maintenance of the group.
- 111 No attempt at a "scientific formula" for compensation can, therefore, be completely successful.
- 112 The best possible compensation plan is of necessity a compromise among the various functions and meanings of compensation, for the individual as well as for the groups.
- 113 Even the best plan will still misdirect, as well as direct and encourage the wrong as well as the right behavior. ...
- 114 Yet, there is hardly a more powerful signal for managers than compensation and compensation structure.
- 115 Its importance to them goes far beyond the economic meaning of money.

- 116 It conveys to them the values of their top management and their own worth within the management group.
- 117 It expresses in clear and tangible form a manager's position, rank, and recognition within the group.
- 118 At today's tax rates, a little more money means, as a rule, very little to senior managers.
- 119 But the status symbol of a little more money and its emotional impact are incalculable. ...
- 120 The most damaging misdirection may result from those apparently eminently "fair" compensation systems that relate a manager's pay directly to performance. ...
- 121 Performance is often measured by return on investment during the current year.
- 122 If we want to measure performance, there is no other way.
- 123 Yet, if return on investment or current profits are overemphasized, the managers of a decentralized business will be misdirected toward slighting the future in favor of the present. ...
- 124 An able management team heading one of the major divisions of a chemical company failed for years to develop a badly needed new product.
- 125 Year after year, they reported to their top management that the new product was not yet quite ready.
- 126 Finally, when the division manager was asked bluntly why he was stalled on a project that was clearly vital to the success of his business, he answered, Have you looked at our compensation plan?

- 127 My management group and I are compensated primarily on the basis of return-on-investment.
- 128 The new product is the future of this business.
- 129 But for five or eight years there will be only investment and no return.
- 130 I know we are three years late.
- 131 But do you really expect me to unjustly penalize my closest associates by reducing their compensation?"
- 132 This story had a happy ending.
- 133 The compensation plan was changed—somewhat in line with the plan Du Pont has had for years with respect to new developments.
- 134 Do Pont does not put the cost of a development into the investment base of a division or a subsidiary until the new product has been introduced on the market. ...
- 135 And within a year or two the new product was out and selling. ...
- 136 The preference should be for simple compensation systems rather than for complex ones, it should be for compensation systems that allow judgment to be used and that enable pay to be fitted to the job of the individual rather than imposing one formula on everybody.
- 137 But I would be the last person to claim that a "fair," let alone a "scientific," system can be devised.
- 138 All one can do, to repeat, is to watch lest the compensation system reward the wrong behavior, emphasize the wrong results, and direct people away from performance for the common good.

139 ***What Should The Objectives Be?***

- 140 Just as "eternal vigilance is the price of freedom," constant effort is needed to prevent misdirection.
- 141 The superior needs to understand what to expect of subordinate managers.
- 142 The subordinates, in turn, need to be able to know what results they should **hold themselves accountable for**.
- 143 Without special effort, superior or subordinate will not know and understand this, and their ideas will not be compatible, let alone identical. ...
- 144 Each manager, from the "big boss" down to the operations supervisor, needs clearly spelled-out objectives.
- 145 Otherwise confusion can be guaranteed.
- 146 These objectives should lay out what performance each managerial unit is supposed to achieve.
- 147 They should lay out what contribution a manager and his or her unit are expected to make to help other units obtain their objectives.
- 148 Finally, they should spell out what contribution the manager can expect from other units toward the attainment of these objectives.
- 149 Right from the start, in other words, emphasis should be on teamwork and team results. ...
- 150 These objectives should always derive from the goals of the business enterprise.
- 151 A statement of his own objectives based on those of the company and of the operations department should be demanded even of the first-line supervisor.

- 152 The company may be so large as to make the distance between the individual operations supervisor and the company's total output enormous.
- 153 Yet the supervisor must focus on the objectives of the company and needs to define his or her results in terms of the unit's contribution to the whole of which it is a part. ...
- 154 The objectives of every manager should spell out his or her contribution to attainment of company goals in all areas of the business.
- 155 Obviously, not every manager has a direct contribution to make in every area.
- 156 The contribution that marketing makes to productivity, for example, may be indirect and hard to define.
- 157 But if a manager's unit is not expected to contribute toward one of the areas that significantly affect prosperity and survival of the business, this fact should be clearly brought out.
- 158 For managers must understand that business results depend on a balance of efforts and results in a number of areas.
- 159 This is necessary both to give full scope to the craftsmanship of each function and specialty, and to prevent the empire-building and jealousy of the various functions and specialties.
- 160 It is necessary also to avoid overemphasis on any one key area. ...
- 161 This is particularly important for service staffs and for highly specialized groups such as the people in information technology.
- 162 They may not always be able to relate their work directly to organizational objectives and organizational results.

- 163 But unless they try to, they are likely to direct their work away from organizational objectives and organizational results. ...
- 164 To obtain balanced efforts, the objectives of all managers on all levels and in all areas should also be keyed to both short-range and long-range considerations.
- 165 And, of course, all objectives should always contain both the tangible business objectives and such "intangible" objectives as manager development, worker performance and attitude, and social responsibility.
- 166 Anything else is shortsighted and impractical.

167 ***Management By Drives***

- 168 Proper management requires balanced emphasis on objectives, especially by top management.
- 169 It avoids the all-too-common business malpractice—management by crisis and drives. ...
- 170 That things always revert to their original state three weeks after a drive is over, everybody knows and apparently expects.
- 171 The only result of an economy drive is likely to be that messengers and typists get fired, and that six-figure executives are forced to do clerical work typing their own letters—and doing it badly.
- 172 And yet many managements fail to draw the obvious conclusion that drives are, after all, not the way to get things done. ...
- 173 Over and above its ineffectiveness, management by drive misdirects.

- 174 It puts all emphasis on one phase of the job to the detriment of all other aspects.
- 175 "For four weeks we cut inventories," one hardened veteran of management-by-crisis once summed it up.
- 176 "Then we have four weeks of general cost-cutting, followed by four weeks of human relations.
- 177 We just have time to push customer service and courtesy for a month.
- 178 And then the inventory is back where it was when we started.
- 179 We don't even try to do our job.
- 180 All top management talks about, thinks about, preaches about, is last week's inventory figure or this week's customer complaints.
- 181 How we do the rest of the job, they don't even want to know." ...
- 182 In an organization that manages by drives, people either neglect their job to get on with the current drive or silently organize to sabotage the drive in order to get the work done.
- 183 In either event, they become deaf to the cry of wolf."
- 184 And when the real crisis comes, when all hands really should drop everything and pitch in, they treat it as just another case of management-created hysteria.
- 185 Management-by-drive is a sure sign of confusion.
- 186 It is an admission of incompetence.
- 187 It is a sign that management does not think.

188 Above all, it is a sign that the company does not know what to expect of its managers and that, not knowing how to direct them, it misdirects them.

189 ***How Should Objectives Be Set and By Whom?***

190 The goals for the jobs of all managers must be defined by the contribution they have to make to the success of the larger unit of which they are a part.

191 The objectives of the direct sales manager's job should be defined by the contribution she and her district sales force have to make to the sales department;

192 The objectives of the project engineer's job, by the contribution he and his engineers and technologists make to the engineering department.

193 The objectives of the general manager of a decentralized division should be defined by the contribution the division has to make to the objectives of the parent company. ...

194 Higher management must reserve the power to approve or disapprove these objectives.

195 But their development is part of a manager's responsibility; indeed, it is the manager's first responsibility.

196 It means, too, that every manager should responsibly participate in the development of the objectives of the higher unit of which he is a part.

197 To "give a **sense** of participation" is not only not enough.

198 It is the wrong thing.

199 Being a manager means **having** responsibility.

- 200 Precisely because his aims should reflect the objective needs of the business—rather than merely what the boss, or the manager himself, wants—he must be committed to the objectives with a positive act of assent.
- 201 Managers must know and understand the ultimate business goals, what is expected of them and why, and what they will be measured against and how.
- 202 There must be a meeting of minds within the entire management of each unit.
- 203 This can be achieved only when all the contributing managers are required to think through what the unit objectives are and are led to participate actively and responsibly in the work of defining them.
- 204 And only if lower managers participate in this way can the higher managers know what to expect of them and make exacting demands. ...

205 [The Manager's Letter]

- 206 This is so important that some of the most effective managers I know go one step further.
- 207 They have each of their subordinates write a **manager's letter** twice a year.
- 208 In this letter to the superior, managers first define the objectives of the superior's job and of their own job, as they see them.
- 209 They then set down the performance standards that they believe are being applied to them.
- 210 Next, they list the things they must do to attain these goals and the things within their own units they consider the major obstacles.
- 211 They list the things the superiors and the company do that help them and the things that hamper them.

- 212 Finally, they outline what they propose to do during the next year to reach their goals.
- 213 If their superiors accept this statement, the manager's letter becomes the charter under which the manager operates. ...
- 214 This device, like no other I have seen, brings out how easily the unconsidered and casual remarks of even the best boss can confuse and misdirect.
- 215 One large company has used the manager's letter for ten years.
- 216 Yet almost every letter still lists as objectives and standards things that baffle the superior to whom the letter is addressed.
- 217 And whenever she asks, "What is this?" she gets this sort of answer, "Don't you remember what you said last spring going down in the elevator with me?" ...
- 218 The manager's letter also brings out whatever inconsistencies there are in the demands made on a person by his or her superior and by the company.
- 219 Does the superior demand both speed and high quality when she can get only one or the other?
- 220 And what compromise is needed in the interest of the company?
- 221 Does the boss demand initiative and judgment of her people but also that they check back with her before they do anything?
- 222 Does the superior ask for ideas and suggestions but never uses them or discusses them?
- 223 Does the company expect of a small engineering force that it be available immediately whenever something

goes wrong in the plant and yet bend all its efforts to the completion of new designs?

- 224 Does it expect managers to maintain high standards of performance but forbid them to remove poor performers?
- 225 Does it create the conditions under which people say, "I can get the work done as long as I can keep the boss from knowing what I am doing"? ..
- 226 As the manager's letter illustrates, managing managers requires special efforts not only to establish common direction, but to eliminate misdirection.
- 227 Mutual understanding can never be attained by "communications down," can never be created by talking.
- 228 It results only from "communications up."
- 229 It requires both the superior's willingness to listen and a tool especially designed to make lower managers heard.

230 ***Self-Control Through Measurements***

- 231 The greatest advantage of management by objectives is perhaps that it makes it possible for managers to control their own performance.
- 232 Self-control means stronger motivation:
- 233 a desire to do the best rather than do just enough to get by.
- 234 It means higher performance goals and broader vision.
- 235 Even if management by objectives were not necessary to give the enterprise the unity of direction and effort of a management team, it would be necessary to make possible management by self-control. ..

236 Indeed, one of the major values of management by objectives is that it enables us to substitute management by self-control for management by domination. ...

237 To control their own performance, managers need to know more than what their goals are.

238 They must be able to measure their performance and results against the goal.

239 Managers must have clear and common measurements in all key areas of an organization.

240 These measurements need not be rigidly quantitative nor need they be exact.

241 But they have to be clear, simple, and rational.

242 They have to be reliable—at least to the point where their margin of error is acknowledged and understood.

243 And they have to be self-explanatory, understandable without complicated interpretation or philosophical discussion. ...

244 All managers should have the information they need to measure their own performance, and they should receive it soon enough to make any changes necessary for the desired results.

245 This information should go to the managers themselves, and to their superiors.

246 It should be the means of self-control, not a tool of control from above. ...

247 This needs particular stress today, when the ability to obtain such information is growing rapidly as a result of

technological progress in information gathering, analysis, and synthesis.

248 In the past, information on important facts was either not obtainable at all or could only be assembled so late as to be of little use.

249 This was not an unmixed curse.

250 It made effective self-control difficult; but it also made domination of a manager from above difficult.

251 In the absence of information with which to control him, the manager had to be allowed to work as he saw fit. ...

252 The new ability to assemble measuring information will make possible effective self-control.

253 If used properly, it will lead to a tremendous advance in the effectiveness and performance of management.

254 But if this ability is abused to impose control on managers from above, the new information technology will inflict incalculable harm by demoralizing management and by seriously lowering the effectiveness of managers.

255 ***Self-Control And Performance Standards***

256 Management by objectives and self-control asks for self-discipline.

257 It forces the managers to make high demands on themselves.

258 It is anything but permissive.

259 It may well lead to demanding too much rather than too little.

260 This has, indeed, been the main criticism leveled against the concept.

- 261 (See chapter 7, especially the discussion of Abraham Maslow's criticism of Theory Y.) ...
- 262 Management by objectives and self-control assumes that people want to be responsible want to contribute, want to achieve.
- 263 That is a bold assumption.
- 264 Yet we know that people tend to act as they are expected to act. ...
- 265 A manager who starts out by assuming that people are weak, irresponsible, and lazy will get weakness, irresponsibility, and laziness.
- 266 A manager who assumes strength, responsibility, and desire to contribute may experience a few disappointments.
- 267 But the first task of managers is to make effective the strengths of people.
- 268 And this they can do only if they start out with the assumption that people—and especially managers and professional contributors—want to achieve. ...
- 269 Above all, they must make this assumption with regard to the young educated people of today who will be tomorrow's managers.
- 270 These young people may not know exactly what they mean when they demand to be allowed to "make a contribution."
- 271 *But their demand is the right one.*

272 They are right also that management, as it has been practiced so far, does not act on the assumption that the young educated people want to make a contribution.

273 Such people need to be subjected—and to subject themselves—to the discipline and the demands of management by objectives and self-control.

274 ***A Philosophy Of Management***

275 What the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility, as well as common direction to vision and effort, one that will establish teamwork and harmonize the goals of the individual with the common good.

276 Management by objectives and self-control makes the interest of the enterprise the aim of every manager.

277 In place of control from outside, it substitutes the stricter, more exacting, and more effective control from inside.

278 It motivates managers to action, not because somebody tells them to do something or talks them into doing it, but because the **objective task demands it**.

279 They act not because somebody wants them to but because they themselves decide that they have to—they act, in other words, as free men and women. ...

280 I do not use the word “philosophy” lightly.

281 Indeed, I prefer not to use it at all; it’s much too big a word.

282 But management by objectives and self-control may properly be called a philosophy of management.

283 It rests on a concept of the job of management.

284 It rests on an analysis of the specific needs of the management group and of the obstacles it faces.

- 285 It rests on a concept of human action, behavior, and motivation.
- 286 Finally, it applies to every manager, whatever his or her level and function, and to any organization, whether large or small.
- 287 It ensures performance by converting objective needs into personal goals.
- 288 And this is genuine freedom.

289 ***Summary – Management by Objectives and Self-Control***

- 290 Each member of the enterprise contributes something different; but all must contribute toward a common goal, a common performance.
- 291 Each should strive toward workmanship in his or her work.
- 292 Yet professional excellence is a means toward a common objective.
- 293 By its very nature, the organization tends to misdirect away from the common objective.
- 294 Organizations therefore require management by objectives so as to integrate individual efforts into common performance.
- 295 Managers objectives need to be set by themselves.
- 296 And they should be used for self-control.
- 297 Management by objectives and self-control can truly be called a ***philosophy of management for free men and women.***