

MANAGEMENT BY OBJECTIVES USAGE FEATURES AT SMALL BUSINESSES

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Summary

The article deals with an important tool of management – “managements by objectives” – that allows to connect various management levels, functional services and contractors activity. Management by objectives has the advantages and disadvantages. It promotes work planning implementation, helps to determine a place and a role of the process participant, approaches formal structure to informal, increasing contractors personal liability, involving them into the company liabilities.

Keywords: reactive management; target management; planning; goal setting; priorities; report form; accounting records; manager.

Introduction

All range of modern management methods can be placed between two limits: reactive management – target management. Reactive management as the one end of the range is very widespread approach to management. Its feature is that planning is performed just before the beginning of actions or already in the process. The plans tend to change rather often because there was no time for alternatives consideration or because there were no purposes set. Management reduces to the reaction to the current events. Its efficiency is estimated on the rough activity of the managing director and on the force of his pressure upon subordinates, but not on the resulting

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effects of its efforts. For example, the managing director who comes to his office in the morning without the action plan per day and considers a duty to react to everything that occurs around. He accepts the claims of those who shouts more loudly first of all, whether it is the chief requirements of data presentation of management, or customer requirements of alteration of the work rejected by him, or local university request for volume questionnaires filling concerned the company performance methods.

On other end of a range – the methods of target management. The managing director is obliged to determine resulting effects of the actions beforehand and to develop work programs on their achievement. This approach to management includes the plan of the problem resolution even if the problems are as unexpected as machines breakdown, product design changes, required materials receipt delays, etc. The style dominating in this zone of a range of management doesn't require fixed presence of the managing director on his workplace. Whatever problem arose, there is a plan allowing to determine the operations procedure and the methods for the best solving this problem here.

In fact, of course, any of these extreme cases doesn't meet in pure form. Any managing director can't be sure that he never should manage only reacting to unexpected events. But nowadays the competition is so tough that only the few managing directors will be able to keep on the place considering only current requirements. Therefore it is necessary to speak about a continuity of a range of methods between these two limits. The zone of each managing director in this range will depend on a set of factors, but its place in a range will change daily and hourly.

It is obvious that management is more effective when the managing director efforts are concentrated in the zone of the purposes and results orientation. The value of results increases when the managing methods allow to program the actions taking into account real time limits and expenditures amount. It is obvious that the value decreases when the works begin before programming completion – it is inevitably conducts to expensive adjustments.

Management by objectives

The management by objectives is the professional approach to management allowing to establish: what will be done (after the careful analysis – why it shall be done), including determination of degree of works preference; how it will be done (to create the program or the plan of achievement desirable); when it will be done; how many it will cost; what parameters

of works should be considered as satisfactory; what is done for goal achievement; what and when corrective actions will be taken.

The goals management is oriented to resulting effect. The purpose and the result are inseparable for this approach. Managing works on goal achievement, it is necessary to consider constantly reached results. We remind of it because (as it is necessary to be convinced of it) many managing director set the purposes easier, than manage, being guided by them (the same as it is easier to speak about the purposes, than to put them). The listed tasks of goals management reflect this unity of the purpose and results. The first four of them carry to a planning feature of works on goal achievement, and the last three – to function of control of their results.

The method of management by objectives (target management) is applied most often when there are the sharp changes of firm activities, and it comes to the crisis (or, it is possible, on the contrary, to manage by objectives to use the appeared opportunities), from all management team it is required to subordinate the work to achieve the main goals. And in this way the management of the company come to the specific mode determined in world practice as “management by objectives”.

It is better if this effective mechanism having a set of “subtleties” is mastered in advance – before urgent reorganization is necessary. Especially as it is rather well proved in a “quiet” economic situation as well. “Management by objectives” (or “MBO”) proceeds from the idea of the most important priority purposes of the company allocation, and also from the goal of lower level, working for these main goals. Thus the personal responsibility for implementation by the term of all necessary steps and goal achievement is established. The term is offered by the famous American specialist in management Peter Draker in the first half of 50s. The book “Practice of Management”, published in 1954, he covered such elements of the target management, considered in interconnection as parts of single system, as: purpose determination of the organization; setting goals for the organization; using goals as reference points for management personnel; participation of contractors in forming of the purposes of the work; coordination of the purposes and motives of labor behavior of employees of the organization; coordination of incentive systems of work with results in the company goals achievement.

In case of the seeming evidence a lot of things depend on that, how competently the mechanism, procedures of management by objectives is developed. And, first of all, the success will depend on the goal setting identification procedure, how managers determine the sphere of subordinates responsibility and the expected results, what procedures are used in the division purposes implementation, how is communication of managers and contractors by the result of their activities assessment is set.

Without due mechanism of purposes implementation the accent in management is inevitably transferred on current, most often “gross” indicators, somehow: output indicators or sales performance or indicators lying on a surface which provision is required by reporting. In case of such approach the main thing can be neglected. On the contrary, the mechanism of management by objectives allows to reveal priorities and compatibility of the purposes, to establish the clear standard for measurement of results and to direct efforts of all command for their achievement.

As a result it becomes possible to react to any serious changes of activities conditions of the company. The system of target indicators is mobile and can be reviewed depending on a situation.

Management by objectives can be determined as a method or as a management system which is serving both planning tasks, and all organization activity at the same time. Management by objectives is widely used in practice, reflecting positive philosophy about the person, about participation in management. Such effectively managed companies as “IBM” and “Hewlett-Packard”, are among the organizations which use management by objectives successfully. As it was shown earlier, the idea is that the basis for management by objectives which chiefs and subordinates jointly establish the purposes for performance of work and the development, estimate success in their achievement, integrating the purposes of three levels: individual, team and organizational.

Individual purposes of activities

The individual purposes of activities (and, eventually, “standards of work execution”) are established inclusive top managers and contractors (i.e. from top to down). There is a disaggregating of common goals of firm and divisions for the planned period.

Problem definition represents a chain of bilateral discussions of planned targets, criteria of work results assessment and individual “standards of execution” between the head and the subordinate in “classical” treatment of the American theory. In practice other procedural schemes can be applied as well. For the solution of the most difficult technical tasks set, for example, for developers of domestic aviation and space engineering, tough authoritative one-man management was combined usually with skillful use of “collective intelligence” when different approaches were jointly developed, together with subordinates or the tasks, resources and contractors were determined on a competitive basis. For both cases each essential purpose and each task had an executive responsible for its

achievement (its accomplishment) to strictly fixed term within the resources allocated.

The experienced director will independently estimate, how given basic option fits into the existing procedures as far as it corresponds to own management style, managerial (and is even wider – organizational) culture of the company he heads. The thesis is, for example, on addition of the main mechanism procedure of preliminary consideration of division prospects by all workers or leading experts for determination of the best methods of goal achievement, distribution of the tasks (including taking into account the shown interest) required in each case of resources.

The head should choose an optimum ratio between stimulation for achievement of the individual purposes (basic) and stimulation on the basis of the general results reached by the company. Perhaps, the head will manage to connect the basic scheme to counter upward planning, encouraging managers for individual plans formulation, at least, regarding their own professional development.

The top management determines the main priorities for heads of the main structural divisions, those, in turn, proceeding from these installations, study together with subordinates the purpose of productions, departments and services of key contractors. The company establishes final date of individual plans development and discussion in the organization. Documentary registration can be performed through development of the List of purposes of the position and Action plans.

The report form used for management by results contains answers to three questions: “What occurred?”, “What is going on?” and “What the administration should do to implement the planned purposes?”

It is possible to recommend to apply the following simple method of results fixing. The form filled on each manager is divided into two parts. The purposes for which the manager is responsible are on the left side, the reached results are on the right side (in six months, and in a year).

Many companies use approach named “management by exception”, which means that only those purposes which implementation lags behind the schedule are fixed and brought to the attention of the higher manager for acceptance of necessary measures. Using such list, the vice-president for sale, for example, can quickly receive a picture of the results reached in regions without carrying out the long analysis on each purpose of each manager. It is convenient evaluation method of officials achievements of the company for the president as well.

Conclusions

It is recommended to conduct four notebooks of accounting at the same time for management by objectives:

1. “The black book” lists the purposes established for the current year and “standards of execution” for company executives and departments.

2. “The red book” issued monthly contains information on profits, return on investments, data about decrease in cost value, technological improvements, quality of products produced this month, about stock, etc. Purpose of the book – to show current affairs state in comparison to the fixed purposes at present to heads of departments.

3. “The blue book” filling monthly contains data on the managers heading the main divisions. It describes the balance sheet and production results, the size of profit and losses on main types of products, the disaggregation of expenses, the data on quantity occupied and the size of fund of payment, the size of stocks and the analysis of these data. The book is intended for informing heads of factory, divisional and corporate levels on a financial position of the company.

4. “The gray book” filling monthly offers detailed comparisons of the actual monthly costs of the company with “planned”, provided by headquarters in the budget of the company for a year. It also contains monthly consumption of the main raw materials. The purpose of the book is giving detailed information on costs on the certain managers who are responsible for various cost items and thus to involve the mechanism of responsibility for economic results.

The cost reports in comparison with plan are an effective control tool. The considerable part of information necessary for control gathers in the companies where liability for costs is imposed regularly so it isn't required to constitute reports especially for MBO. They already contain necessary data. Information shall be accurately oriented on needs of the employee – to be provided only to those managers who can apply it profitably and in convenient form.

Thus, generalization and analysis of the individual purposes and plans are the most important element of control and cost forecasting for the company. The main allowances of efficiency growth of the typical Russian company lie in this sphere. Management by objectives as a practical method of company management is a function of the top management. In this sense the president and other bosses can't delegate to anybody responsibility for MBO. However the help with MBO system administration can be necessary (such actions as plans consolidation, implementation course tracking, corresponding reports preparation). Such work can be

charged to the head or the experienced specialist of planning service (rarer – financial service).

Three basic approaches of MBO system implementation are possible. They differ in case of top management degree involvement, the speed of distribution and scale (the share of the organization covered by MBO system at the same time). Specifically approach can consist of:

1) implementations of system originally on one (sometimes two) hierarchical levels of management at the same time (and starting with upper). It is required from half-year to one year period to move to the following level;

2) implementation of system at one division which acts as a trial ground for checking MBO suitability for other divisions;

3) implementation of system at all levels of management at the same time which are considered as single system.

In case of MBO idea commitment of the management the implementation can be completed in two years or even in a year, all levels are actively involved in process practically from the very beginning. On the contrary, in case of more conservative approach of a management implementation can borrow 3 – 4 years and distribution happens gradually on different levels and divisions of the organization.

From this, however, it isn't necessary to draw a conclusion that the third option is preferable. Practice shows that the examples of fast MBO distribution are rather an exception than the rule. There are several reasons for that. MBO is like the managerial life style requiring a certain managerial thinking and action. The development of this requires considerable time. It is important to show that the system not only increases an individual responsibility, but is capable to yield real results, including the managers.

Management by objectives has the advantages and disadvantages. It promotes implementation of real work planning, helps to determine a place and a role of the participant in process, to approach formal structure to informal, increases the personal liability of contractors, involves them in liabilities of firm.

At the same time effective application of this method demands on the manager of high professionalism. It is very difficult to bring to contractors fully philosophy of this approach. The correct purposes setting to the workers is possible in case of good knowledge common goals of group and organization by them. It is necessary to organize interrelation of the purposes. Implementation of "management by objectives" assumes carrying out large volume of works by the management of the company. The procedure of management by objectives declines to short-term goals establishment. The tendency to "stagnation" for the purpose and inflexibility appears. The method tends to set "quantitative" purposes than "quality".

Quite often the determination of the purposes comes over the managing of the company.

The important feature of the MBO method is that the purposes and indicators are provided with appropriate authority provision and subsidiary duties giving taking into account the potential of each manager or the executive in charge and resources which are at his disposal. This mechanism is just expected for formal process of planning supporting by system of an individual responsibility and stimulation of managing directors. The existence of the problem of “mismatch of interests” in the companies clarifies the need of special mechanisms of their “reduction” to the company purposes. The MBO system is considered as the important tool allowing to connect activities of various levels of management, functional services and contractors.

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