

## Corporate innovation online Innovation management best practices

### Engage employees with the newly designed MBO 2.0

MBO, a system of management first mentioned by Peter Drucker and later developed by John Humble<sup>1</sup> (U.K.) and George Odiorne (U.S.A.) in the 1970s, may be an answer to managing in this digital age. It may appeal particularly to millennials who so want to participate and be part of strategic objective setting in their larger corporation.

Properly done, a mutual understanding of the subordinate's job is developed through direct and open discussion between the manager and his/her subordinate. The process encourages collaboration, mutual understanding, adds clarity to the relationship and results in a set of key performance indicators (KPIs) which can be used by both parties to measure progress. Communication can be dramatically improved.

The MBO system, may be the answer in a time when working remotely can complicate communication. MBO, as a useful tool for the decentralization of responsibility and authority, has the aim of obtaining the maximum participation of employees in the achievement of objectives.

A change of mentality is assumed such that the "boss" is no longer the controller, and the worker is consequently not the controlled one, but collaboration takes place. The employee is the manager of his education and no longer "the boss" who says what to do. The smart worker automatically understands what is useful to him/her by trying to continuously progress. He thus has a great responsibility for his own growth and subsequently towards the company. Further, objectives for an individual can be aligned with those of the organization.

*Perhaps MBO 2.0, as a concept for managing in these turbulent social media times, is the ideal means for engaging staff.*

*Something needs to be done to encourage engagement in the interests of the both the employee and the corporation.*



MBO has a history of use with many noteworthy companies although the terminology and process are often modified to suit existing management practices. For example:

[Googles-management-of-innovation.pdf \(corporateinnovationonline.com\)](#)

New potential recruits often ask, how the corporation's policies fit with the issues of the day; woman's rights and climate actions come to mind. Their questioning conveys the message that, if they are to be hired, are they going to be comfortable with a company's public position on these and similar broad decisions. New recruits want to know this in advance of saying 'yes' to an offer of employment.

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<sup>1</sup> Paul White had the pleasure of collaborating with John Humble in the 1970s

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Other than researching a company's public position and finding the answer. The use of MBO, in its traditional sense, provides a means of documenting an employee's wishes in a form which provides a direct link with senior management and their values and objectives. Communication can be improved both up and down the organization!

The major **traditional elements** of an MBO address the following issues.

- What can I do to help the company achieve its objectives
- To whom do I report
- With whom do I have major working relationships
- How am I to be measured in terms of progress

Traditional MBO was very much focussed on the business goals of the corporation and how to proscribe the role of the individual in **accomplishing business objectives**.

**MBO 2.0 adds a focus on the linkage between the values of the individual and the values of the corporation.** What are the advantages?

- As a recruiting tool it is an indication that the corporation – its management/board – is deeply interested in and committed to furthering selected societal changes.
- It facilitates the inclusion of such a discussion between 'boss' and subordinate about these issues and improves communication on the issues.
- It increases transparency on events impacting the corporation.
- Discussing these events at the same time as forming the MBO can bring into play larger issues of interest to both participants.
- The inclusion of 'societal issues' broadens the discussion and therefore the breadth of the relationship.

The intent is to retain valuable personnel and, in the first instance, attract scarce thoughtful talent.

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#### An Outline of what MBO is all about<sup>2</sup>

##### MANAGEMENT BY OBJECTIVES

Managers have always been challenged to produce results, but the modern manager must produce them in a time of **rapid technological and social change**. Managers must be able to use this rapid change to produce their results; they must use the change and not be used or swallowed up by it. Both they and the organizations they manage need to anticipate change and set aggressive, forward-looking goals in order that they may ultimately begin to make change occur when and where they want it to and, in that way, gain greater control of their environments and their own destinies.

**The most important tool the manager has in setting and achieving forward-looking goals is people, and to achieve results with this tool the manager must: first, be able to instill in the workers a sense of vital commitment and desire to contribute to organizational goals; second, control and coordinate the efforts of the workers toward goal accomplishment; and, last, help his or her subordinates to grow in ability so that they can make greater contributions.**

In hopes of increasing individual production and contribution, managers have resorted to many different approaches: they have tried to get commitment and hard work through economic pressure and rewards; they have sought greater production by teaching the workers the best or most efficient ways to do a job; and they have tried to cajole their employees into a sense of well-being, hoping that their comfort would produce a desire to contribute. All these approaches had some success, but none succeeded totally in injecting enough of that element of vitality and adaptability into organizational life to allow it to thrive and remain viable in this age of change and socio-technological turmoil.

##### Definition

The “Management by Objective” (MBO) approach, in the sense that it requires all managers to set specific objectives to be achieved in the future and encourages them to continually ask what more can be done, is offered as a partial answer to this question of organizational vitality and creativity. As a term, “Management by Objectives” was first used by Peter Drucker in 1954. As a management approach, it has been further developed by many management theoreticians, among them Douglas McGregor, George Odiorne, and John Humble<sup>3</sup>. Essentially, MBO is a process or system designed for supervisory managers in which a manager and his or her subordinate sit down and jointly set specific objectives to be accomplished within a set time frame and for which the subordinate is then held personally responsible. All organizations exist for a purpose, and, to achieve that purpose, top management sets goals and objectives that are common to the whole organization. In organizations that are not using the MBO approach, most planning and

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<sup>2</sup> Sourced from <https://home.snu.edu/~jsmith/library/body/v20.pdf> by Thomas M. Thompson

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objective setting to achieve these common organizational goals is directed downward. Plans and objectives are passed down from one managerial level to another, and subordinates are told what to do and for what they will be held responsible. The MBO approach injects an element of dialogue into the process of passing plans and objectives from one organizational level to another. The superior brings specific goals and measures for the subordinate to a meeting with this subordinate, who also brings specific objectives and measures that he or she sees as appropriate or contributing to better accomplishment of the job. Together they develop a group of specific goals, measures of achievement, and time frames in which the subordinate commits himself or herself to the accomplishment of those goals. The subordinate is then held responsible for the accomplishment of the goals. The manager and the subordinate may have occasional progress reviews and re-evaluation meetings, but at the end of the set period, the subordinate is judged on the results the he or she has achieved. He or she may be rewarded for success by promotion or salary increases or he or she may be fired or transferred to a job that will provide needed training or supervision. Whatever the outcome, it will be based on the accomplishment of the goals the subordinate had some part in setting and committed himself or herself to achieving.

#### **Variations in practice**

In practice, this MBO approach, of necessity, varies widely, especially regarding how formalized and structured it is in a given organization and to what degree subordinates are allowed to set their own goals. In some organizations, MBO is a very formal management system with precise review scheduling, set evaluation techniques, and specific formats in which objectives and measures must be presented for review and discussion. In other organizations, it may be so informal as to be described simply as “we get together and decide what we’ve done and what we’re going to do.” However, in most organizations, MBO takes the form of formal objective setting and appraisal meetings held on a regular basis—often quarterly, semi-annually, or annually. Even more situational than the degree of formality and structure is the degree to which a subordinate is allowed to set his or her own goals. In this regard, the kind of work that an organization does plays a large part in determining how much and on what level a subordinate will be allowed to participate in formulating his or her own goals. In some organizations a subordinate is almost told what he or she needs to do and is simply asked if he or she will commit to achieve that goal, while in others the subordinate is given great latitude and room for innovation. For example, there is a contrast between a production situation in which a supervisor informs a subordinate that so many widgets must be made over the next six months and simply asks which part of that production burden the subordinate is willing to shoulder and a university situation in which a department head informs a subordinate of the need to develop more community-oriented programs and asks how the subordinate thinks he or she can contribute to this goal. In the latter circumstance, the subordinate has much more room for innovation and personal contribution as well as a greater part in designing the specifics of the program than does the production worker who is simply asked which part of a specific activity he or she cares to commit to.

#### **Potential advantages**

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No matter what form the MBO approach takes in each organization, it is essentially a process that helps to (a) direct managers' attention toward results, (b) force members of the organization to commit themselves to specific achievement, and (c) facilitate their thinking in terms of their organization's future needs and the setting of objectives to meet those needs. In addition, the MBO approach can supply the manager with greater measures of three of the tools he or she needs to make the best use of the organization's greatest resource: people. The manager can:

- 1. Gain greater commitment and desire to contribute from subordinates by (a) allowing them to feel that the objectives they are working toward were not just handed to them but are really theirs because they played a part in formulating them, (b) giving subordinates a better sense of where they fit in the organization by making clear how the subordinates' objectives fit into the overall picture, and (c) injecting a vitality into organizational life that comes with the energy produced as a worker strives to achieve a goal to which he or she has taken the psychological and (sometimes economic) risk to commit.
- 2. Gain better control and coordination toward goal accomplishment by (a) having a clearer picture of who is doing what and how the parts all fit together, (b) having subordinates who are more likely to control and coordinate their own activities because they know what will help and what will hinder their goal achievement, and (c) being able to see which subordinates consistently produce and which do not.
- 3. Gain an increased ability to help subordinates develop by (a) being better able to see their strengths and weakness in operation on a specific objective and (b) using a management approach that teaches the subordinates (and the manager, for that matter) to think in terms of results in the future—an approach that teaches them to try to anticipate change, to define clear and specific objectives, and to delineate concrete measurements that will tell them when they have achieved their goals.

#### Potential for misuse

MBO easily can be misused and often is. What is supposed to be a system that allows for dialogue and growth between boss and subordinate with a view to achieving results often degenerates into a system in which the boss puts constant pressure on the subordinate to produce results and forgets about using MBO for commitment, desire to contribute, and management development.

Sometimes even well-intentioned managers misuse MBO because they do not have the people skills or knowledge of human needs to keep their appraisal sessions from becoming critical, chewing-out periods. Finally, many managers tend to see MBO as a total system that, once installed, can handle all management problems. This has led to forcing issues on the MBO system that it is not equipped to manage and that frustrate whatever good effects it might have on the issues with which it is designed to deal.

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