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INTRODUCTION

MbO or Management by Objectives is a principle that applies for all managers and executives within XYZ Hotels & Resorts, regardless if a monetary system is linked to it or not.

Whatever form is chosen, each individual will be given 4-7 written objectives at the beginning of the year. The final results will be evaluated by the end of the year. For Department Heads and Executives this shall be done together with the yearly Performance Appraisal where on the last page of the form the space is left for the definition of the objectives (MbO).

The objectives shall gear towards the general objectives of the unit leader to obtain maximum contribution to the overall company target. Furthermore those targets shall be within the *area of responsibility and influence* of the employee and therefore "individual objectives".

The General Manager is responsible that within the hotel at least all managerial staff having leadership responsibility or budget responsibility (department heads, assistants, managers, supervisors) are integrated within the MbO process and that the appropriate system is in place and regularly monitored.

Each individual MbO shall be filed within the employees personnel file for review at any time.

PRINCIPLES FOR MANAGING OBJECTIVES

The first task of effective management is managing objectives. There is the question coming up whether objectives are to be *stipulated or agreed upon*. This question is by no means as important as is generally assumed to be. The management task is to ensure that there *are* objectives. The way in which they are set must be subordinate to the task itself.

Personal Annual Objectives

There are several widely differing types of objectives. They differ in the period of their effect (long, medium or short term), their content (strategic objectives, operational objectives), their area of application (general objectives, departmental objectives, personal objectives etc.) and how specific they are (broad objectives, concrete objectives).

Therefore, when talking about "Management by Objectives", the sentence must be clearly understood. The suggestion is that "Management by Objectives" should be understood to mean *management by personal annual objectives*. Therefore we restrict the use of this phrase "MbO" to a particular type of objective.

The General Direction

We frequently neglect to adequately inform the employees, who are to be managed by objectives, about the *basic* intentions, the "general direction" in principle, for the next period. We can hardly expect people to set themselves good objectives or assist in their implementation if they are not informed.

Therefore, key employees must be informed briefly and precisely about the basic direction in which the company, hotel, department, profit centre etc. is to proceed. Doing so verbally has its advantages, but it should be as well done in writing. In any case, after receiving the instructions verbally, the employees should also be given them in writing. The verbal method is more effective and motivating; the written is more precise, not only at that point in time but also later, because it can be reconstructed and it therefore less susceptible to arbitrary interpretations.

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Basic Rules for Management by Objectives

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Irrespective of how objectives are set in individual cases we suggest that particular focus be taken of the following:

Few Objectives – Not Many

We almost and always take on *too many* things that are also very *different* in nature. Setting objectives is one of the most important applications of the principle of concentration.

Objectives, particularly the personal annual objectives referred to here, are, along with the task to be carried out, the most important means of making people in an organisation, beginning with ourselves, concentrate and focus on something; or to put it very simply, of managing them.

Anyone who is interested in effectiveness and wants to see results at the end of the year must do the exact opposite of what the majority of managers do with regard to objectives. Instead of “loading the car” with more and more, ensure that people take on *few* objectives. This question should always be asked: *Is this really important? What happens if we do not do it?*

To concentrate on *priorities* is very important. Anyone who is familiar with an organisation and has some practical experience can usually specify quite accurately what is really important. On the other hand, what is difficult and is usually ignored is preventing the *opposite* of priorities – we could call them simply non-priorities. By those we mean all those things that only appear to be important and take up a lot of space on our desks and our computers. Those must be brought under control and kept under control.

Few but Big Objectives

Taking on less does not necessarily mean, as could be assumed, working less, being lazy, and “hanging around”. The guideline should read: *Few but big objectives – ones that are significant and count for something when they are achieved.*

Most people have too many *small* tasks. They waste their energies and, while they may indeed have a lot of work, they have no results to show for it. Therefore they do not experience any success, which is why they need to be “motivated”. This vicious circle must be broken, not through sophistic “development programs” but through *big objectives*. The task, the job, the objective should guide the people, not the boss. The objective should be the sources of authority, direction and supervision, not a superior.

Quantification – but Not Dogmatism

Wherever possible, it should be obligatory for employees to quantify their objectives. This must always be followed up and insisted upon. There is *much more* that can be quantified than most people believe. Successful quantification of something that has never been quantified is the perfect example of a highly creative achievement. The absolute minimum is a quantification of time, i.e. there should be no objectives without a deadline.

We should go as far as possible with quantification, at least, beyond the point where we usually stop but, and this is an important qualification, we should not be dogmatic about it. Experience shows that *the more important the*

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objective for the organisation, the less it can be quantified in the narrow sense of the word. Sales, market share, productivity, cash flow, GOP, and many other things can now be quantified. But what is the situation like in the case of quality, customer benefit, customer satisfaction, innovation, etc.?

In any case, we must demand the maximum possible *precision*. This is also possible where quantification in its narrow sense is no longer feasible. *What do we base our assessment and evaluation on at the end of the next term in order to determine whether we have come closer to our objective?* This must be the key question. Therefore, we must train people to describe the desired final outcome as precisely as possible.

Resources

It is always correct to differentiate between objectives, resources, measures and concepts. This does not mean that they cannot be dealt with together. On the contrary, they *must be dealt with together* on principle. Employees should not only be asked for the objectives but they should also state the most important resources they are likely to require to achieve them. *Firstly*, this will improve their understanding of the business; *secondly*, this corresponds with entrepreneurial thinking. There are no entrepreneurs, at least none that successfully survive, that do not simultaneously think about all three elements: objectives, resources and measures. And *thirdly*, it is the only way to not only set objectives but also to set *realistic* objectives, which are what is really required.

People Not Groups

Every objective must have a *person's name* on it. Effective objectives are *personal* objectives. Whether the person responsible for the objective then requires a group, a team etc. for its implementation is another issue. This can often be decided by the people in charge if they are sufficiently competent to make the decision. But one person should be in charge and *not a group*.

All Employees or Only Selected Ones?

In management issues, people are unfortunately too inclined to have a concept of equal treatment that is *not properly understood*. The fact that everyone is equal in the eyes of the law is indeed an important constitutional principle and it signifies progress. But this does not mean that everyone should or can be equal in the eyes of their boss. Experience shows that the common belief is that if it is useful for certain employees to have objectives, the same must be true of *all* employees. This usually leads to absurd situations, which render the whole principle of management by objectives ridiculous and without any credibility.

We do not rule out situations in which a doorman can have sensible objectives, such as when new security systems are installed, which he must learn to operate. But he will usually not require any objectives to carry out his duties well.

Therefore, careful consideration must be given to the issue of which employees should have objectives and which should not. This is a genuine management decision, which will keep changing from year to year.

Individual Application

A second type of individualisation is more important, namely, the individual *application* of management by objectives. This idea applies to almost everything in management.

Experienced staff cannot and should not be managed in the same way as the inexperienced. In the case of the *inexperienced*, whether they are too young to have gained experience or are new to the company, the manager must thoroughly check the objectives they intend to achieve, what they perceive to be their priorities and what they consider of secondary importance. Great stress must be laid on precision and quantification. The manager must discuss their objectives with them thoroughly and examine in great detail their analysis of the relevant resources.

On the other hand, *experienced* people whom the manager has known for the last eight or ten years and knows how they react and particularly how they work, require much less management. In such cases the manager can be content with less precision and also with less discussion.

Therefore, there should be no *unnecessary egalitarianism!* For an experienced employee it is very demotivating, even insulting, to be subjected to the same procedures as young and inexperienced employees. After all, they have already proved their capabilities and also that they can be relied on.

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Objectives Must be Specified in Writing

A remarkable number of managers dislike the requirement that certain things should be in writing. They associate it with bureaucracy. This may be justified in some cases but it is not true in the case of objectives. Each person's objectives must be documented in writing, and as precisely as possible. This certainly does not mean more work, as is the frequent objection. On the contrary, it saves additional work, namely the effort expended later to eliminate misunderstandings, mistakes and communication problems. Moreover the documentation of objectives is absolutely essential for a subsequent performance appraisal.

No great effort is involved. One page usually is sufficient if we adhere to the practices suggested above. If we need to write more, it is indicative of the fact that the objectives have not been considered and determined professionally, and this again makes their successful implementation doubtful.

Stipulate Objectives or Agree Upon Them?

There are countless arguments and questions about whether objectives should be agreed upon or stipulated. The job is to *ensure that there are objectives!* This is the management task.

For obvious reasons, there is much to be said for *agreeing upon* objectives, wherever this may be possible. We are aware of the positive effect this has on motivation; people are or inclined to do their utmost for something if they have participated in its inception.

But to set sensible objectives by agreement, *two conditions* must be met together: *good employees and a lot of time*. If even one of the conditions is not fulfilled, it will be difficult to reach an agreement that is more than a pseudo-consensus. At any rate, it is important that we do not adopt a dogmatic approach to agreeing upon objectives. There will always be situations, in which we must, at some time, say: "*We have now discussed these objectives for six weeks and regrettably we have not reached any consensus, even though I have done everything in my power to facilitate this*". What now? This is the situation in which the objectives themselves are even more important than agreeing upon them. They must then be *stipulated*, even if this does not seem to be in keeping with the modern view. At any rate, under no circumstances should there be a situation where there are no objectives simply because it was not possible to reach an agreement.

Co-operative management is almost always better than autocratic management, but there is co-operation that does not yield any results. The emphasis must be on management. Participation is frequently and mistakenly understood to be an end in itself. It serves a purpose, which does not consist of imparting the "feeling of having a say". Its purpose is to *make responsibility a part of the task*. Therefore there are good reasons for participation. But it is not an end in itself. There can be not enough participation or there can be too much participation. Not enough participation usually leads to lack of responsibility. Too much participation, on the other hand, frequently leads to a lack of performance.

Objectives are essential for every organisation. The management task of managing objectives and managing by objectives determines the effectiveness of an organisation in a crucial way, and nothing else can compensate if it is not carried out. It also determines the effectiveness of each individual, and this is by no means restricted only to the business world. It is objectives that define when work becomes performance. Basically, we cannot speak of performance without having objectives. Objectives give human effort direction and meaning.

Note: Correlation between MbO and Assignment Control?

Within the Assignment Control the assignment will summarise the targets and objectives (from the main tasks; the strategic challenges; the actual situation & strengths). Those objectives within the Assignment are focused and in short version, whereby the objectives within the MbO are much more detailed (target/goal, description, deadlines, responsibilities, resources, comments). In principle both can be ideally combined to become effective. The Assignment control helps to define the right targets.

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Practical Example of an Objective (MbO)

(Excerpt out of Yearly Performance Appraisal Form)

5. MbO Targets within the area of responsibility (Quality/Quantity)

Define and agree between 5 to 7 personal targets for the individual: Personnel Manager

Target / Goal	Description	Resources needed	Remarks
<u>Target 1</u> Establishment of Action Plan for hotel for XYZ strategic targets, as contribution to the company and the development of hotel staff until 31 st January 2016	Establish plan according to requirements XYZ in regard of the HR processes: - Induction of employees - Yearly perf. appraisal - MbO on all managerial and supervisory levels	9 hours	- refer to instruction XYZ as per Policy manual - Co-ordinate with all dpt. heads - Submit final AP to the GM for approval
<u>Target 2</u> Establish a salary survey within the competition on the local market for all levels of employees; until 30 th June 2016	A detailed overview of packages, including: - base salary - service charge - other benefits - training (ext. paid) - bonus / incentives Total package	2 days USD 500	In co-ordination and help of the accounting department. If support from GM needed to open doors, initiate early enough. - Hilton - Sheraton - Intercontinental - Marriott
<u>Target 3</u> to be continued			