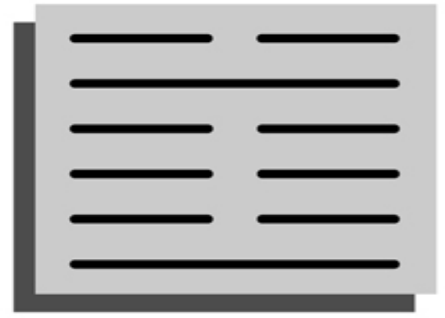


Change Management Associates



August 2011

Featured Topic



Because I Said So! Management by Objective (MBO) versus Striving To Target Condition

Dear Drew,

In some recent work with companies I have encountered a troubling business practice that dates back decades. It is the practice of setting measurable targets or outcomes for organizations, departments and individuals. Now there is nothing wrong with goal setting. What I find troubling is the means that it is put into practice.

I first experienced this during my corporate career in the 1980s. I was asked to submit a budget for the coming year for my department. I undertook the task in earnest. I gathered department members and asked them to look forward and determine what they would require to meet the projected business needs for the coming year. They provided estimates of capital and non-capital expenditures, as well as staffing requirements. I presented this information to my manager who summarily dismissed it. He said, "your department was budgeted with \$X this past year, I want you to get by with 10% less next year". He described this practice as "Management by Objective (MBO)", and how all successful companies "do it". There was no discussion on the means to achieve this outcome, just "you'll figure it out, go make it happen".

In the twenty plus years since, I have found that this is a common management approach, if not in formal name, certainly in practice. In fact, I have met countless managers who believe this is

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what managing is all about. Further, this practice goes beyond the budgetary process I describe and is evident in the general behavior exhibited by many managers. How often have you told your manager that a project could be completed in 8 weeks, only to receive the response "do it in 6"? This interaction takes place with little explanation regarding 'why' and little discussion as to 'how'.

Peter Drucker introduced the term Management by Objective in his book "The Practice of Management" (1954). As is often the case, over time the concept "morphed" into something different from what Drucker originally described. In fact, Drucker described the importance of going beyond imposing quantitative targets and conducting meaningful discussions around the means to achieve them. Unfortunately people missed this important point as they practiced MBO in the years to come. W. Edwards Deming in his book "Out of the Crisis" (1986) presented his "14 key principles for management". Point 12b was "abolishment of management by objective", which related to one of his "seven deadly diseases". Deming directly challenged the practice, more specifically the management behaviors that derived from it.

A different approach (and more in line with what Drucker had probably intended) could be called "striving towards target condition". First a target condition is different from target. A target is an outcome. A target condition is a description of a process or a desired state. The conditions provide clarity on the means by which the outcomes will be achieved. After all there are numerous ways to achieve an outcome, several of which may negatively impact how a process performs. Before you believe that this is all about semantics, let's look at two examples.

For example, I have a student who is attempting to implement a Pull/Kanban System for a product line at a time when an "edict" was sent from corporate to reduce inventory by a specific amount. Plant Management is responding to the edict and on-time-delivery has suffered significantly as a result - probably an unintended but a very real outcome nonetheless. Plant Management won't even consider the Pull/Kanban System since it would result in a modest increase in inventory, and in spite of the other benefits it would provide. What was needed here was a greater description of the conditions that the plants must meet (e.g. providing a certain level of customer service at a published lead time) while working towards the outcome of reduced inventory.

Another common example involves sourcing of purchased materials. A common target is to reduce supplier cost. Most Purchasing or Supply Chain professionals respond to such a target by finding cheaper and cheaper sources. However, this comes at the cost of longer lead times, less predictable supply chains, higher inventory, etc. A definition of target conditions (e.g. sources within x-days of lead time, use of existing supplier partners, attention to full acquisition cost) would drive a very different course of action.

Target condition thinking also supports the objective of

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standardized work - a foundation concept of Lean. Standardized work is a condition. Once defined one can review a process, any process, and ask, "Does that condition exist?" Standardized work is not simply a metric (e.g. number of units per hour), but it describes how the metric is to be achieved (e.g. the desired sequence of steps). Too often the response to "Do you have standardized work?" is a display of "planned versus actual" throughput numbers. This shows that the existing understanding (and thinking) falls short of what is the true intention of standardized work, much like what happened with MBO.

In addition to establishing target conditions is the need for managers to assist others in the process of achieving them. Even with the clarity provided by target conditions, people sometimes need a little help. This is not to say that managers must know the step-by-step way to get there and dictate such. Rather it should be to facilitate people through the discovery process in a form of "together we learn" approach. Management's involvement often provides much needed confidence during the initial steps of process improvement. Further, leaders can teach basic process improvement skills throughout. The result will be more capable associates who can apply what they have learned in the future, thereby allowing for still higher levels of performance to be achieved.

Best Regards

Drew Locher

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Book Review: Toyota Kata: Managing People for Improvement, Adaptiveness, and Superior Results by Mike Rother (McGraw Hill, 2010)

Mike Rother captures the true essence of the Toyota Production System in this landmark book. It is a must read for all business leaders. In it he clearly distinguishes between traditional management approaches and Toyota's. The author offers practical guidance for leading and developing people in any organization. The concepts and terms are covered in such a way to develop a sufficient understanding on the part of the reader so he or she can put them into practice immediately. Two "kata" are covered. The Improvement Kata is a repeating routine of establishing challenging target conditions, working step-by-step through obstacles and always learning from the problems encountered. The Coaching Kata is a pattern of teaching the improvement kata at every level to ensure that it motivates people's ways of thinking and acting. Forget the Lean "tools". This book covers the true "secret sauce" of a successful Lean Enterprise.

Leadership. Tactical approaches provided for HR, Finance & Accounting, Purchasing, Sales & Marketing
This will become the definitive how-to book on the subject.

"The Complete Lean Enterprise" (winner of a 2005 Shingo Prize)
VSM for Administrative & Office Processes

"Value Stream Mapping for Lean Development"
(Reviewed in the 2nd Issue 2010 of AME's Target magazine)

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