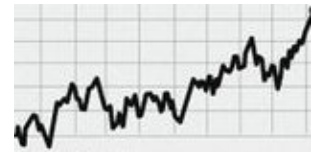


General George Patton said, "Don't tell people how to do things. Tell them what to do and let them surprise you with their results." This was new thinking in the 1940's and 50's as business scrambled to satisfy the public's demand for products after the scarcity of World War II. This same thinking was formalized as Management by Objectives<sup>1</sup> (MBO), results-based management or management for results. Focusing on results has driven management thinking for decades and while it sounds logical and appealing, this thinking causes endless trouble.

The basis of Management by Objectives is to set a SMART<sup>2</sup> goal, clearly communicate the goal to your people, get them to buy into the goal, and then let them achieve it. This is good right? We don't want to micro-manage; we want to respect our people and assume they are smart enough, capable enough to achieve these goals. We, as management, provide direction. They, the willing workers, use their skills and ingenuity to produce the results we want. Everybody wins, right?

At Snufflepuff Industries, management had been struggling for months to get back in the black. Material prices had jumped, fuel and shipping costs were up, and labour costs were 20% higher than two years ago. Unless they could ship more volume, there'd be no way to turn a profit without increasing prices, and they were only three months into this year's annual catalog cycle, so a price increase wasn't an option. They double-checked the numbers and decided they needed to ship 800 more units each month to break even.

In a bold MBO move, management decided to set the production quota at 8,000 units per month within two months, a full 1,000 more than they'd averaged for the last six months. It was an aggressive goal, but necessary for the survival of the company. As enlightened managers, they were very open with their employees about the importance of this change, and about the financial situation of the company. They set up a performance reward system, so all of the staff would be rewarded for meeting the targets. They created a web-based dashboard on the company intranet so everyone could monitor daily progress towards the goal, and put a big wall chart in the production area to make it visible and important everyone. They held lots of meetings to make sure that everyone from the president to the line workers, from management to maintenance all understood and agreed to the crucial goal of shipping 8,000 units per month.



After one month, production was up to 7,400. Management was happy with the increase, but they were not satisfied. Meetings were held, newsletters were written, posters were posted, and management reminded everyone of the importance of reaching 8,000 units per month. The second month, despite the intense focus on the quota, only 6,800 units went out – less than before! Management went ballistic.

"Don't you understand the importance of meeting these goals? Our costs are up and we have to increase our volume to cover our overheads. The future of the company is at stake! We'll all be rewarded if we can meet these goals, you'll all share the profits. But

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<sup>1</sup> A term initially made popular by Peter Drucker in his book 'The Practice of Management' (1954)

<sup>2</sup> The SMART acronym has many definitions of the form Specific, Measurable, Agreed, Realistic, and Time-Specific. There's a good summary of the many options by Zack Swinney and Ram Ramamoortyat on <http://www.isixsigma.com/> Search for SMART in their Six Sigma dictionary.

you've all got to pitch in 110% to make this happen, all of your jobs depend on it. We've all committed to this objective now let's pull together to make it happen."

The next month, management was thrilled to see 7900 units shipped. The month after, 8000, then 8050. As they had hoped, management by objectives had produced results; their carrot and stick approach had certainly worked to motivate the employees and, without having to manage every detail of how to achieve the goal, they had successfully led their people to do just that. They had obviously tapped into the creativity and innovation of their workers and the company had reached their production goals. Once again, management had proven that MBO works. Unfortunately, the next month, the bank called their loans and a confused and surprised Snufflepuff management watched as their company was snuffed out.



What went wrong? They'd set a goal, communicated it to their people, gotten agreement from the people, and motivated everybody to meet the goal. Everything management had done had worked, and yet when they should have seen soaring profits, they tumbled into bankruptcy. What happened?

The problem with MBO, and with almost every number goal set by the boss and backed up by reward and punishment, is that it usually works. Unfortunately, it usually doesn't work the way you want. MBO ignores the fact that all of your people work within your systems, and that those systems have built-in capacities. Your production systems, your administrative systems, your computer systems, your social systems, and your management systems all have a fixed ability to produce output. The numbers you get are based on the capacities of your system as a whole and there are only three ways to change those numbers<sup>3</sup>:

1. Change the system.
2. Distort the system.
3. Distort the numbers.

If you set goals to produce better numbers, and especially if you use incentives or fear for motivation, people will work very hard and be very creative in their quest for results. The most desirable way to improve the numbers is obviously to change the system so it can produce more, but employees usually have very little ability to change the system they work within. Employees can't change the equipment, the policies, the materials, the processes, the administration, the management or the buildings – employees work within the systems that management sets up for them. So how can employees produce better numbers when they can't change the system?

The simplest way is to distort the system – achieve the goal but at the expense of something else. For Snufflepuff, as the stakes got higher, the employees started to focus strictly on getting the numbers out. They were measured on what they shipped, they were

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<sup>3</sup> As explained by Dr. Brian L Joiner in his book 'Fourth Generation Management' (1994)

rewarded for shipping more, and they got chewed out for not shipping enough. Management was focused on quantity, so everyone focused on quantity. Production staff trimmed time off assembly and testing so they could put more through. The scheduling department changed what they put into production after they realized the shop could produce four X10's for each X24. They scheduled more X10's, leaving orders for X24's late or unfilled, but shipping more units overall. Customers were reporting more back-orders and problems, and warranty costs were climbing, but the important thing was that the units were getting shipped.

Even with all these distortions, it was still hard to meet the target numbers. Management didn't want to hear excuses, they wanted to see results. So, the only other option the employees had was to distort the numbers themselves, starting with 'creative accounting' and progressing to outright lies. Shipping realized that the way the number was being measured, returns were not being subtracted from the total shipped. Soon, boxes of defective units were being included in order after order. The defects were eventually detected and returned, but they added to the count. Eventually, trucks started leaving with empty boxes, driving around until after the month end results were in. Employees felt terrible, but what could they do; they had to meet the numbers.

What's wrong with Management by Objective? What's wrong with striving for better numbers? We all want higher profit, more sales, increased shipments or better quality, but the methods used to achieve those numbers are as important as the numbers themselves. Excellent organizations focus on the method used to produce results, working openly with employees to improve the systems, to remove barriers, to eliminate roadblocks and improve the capacity of the system. Setting a goal without a method is just wishful thinking. Instead, effective leaders seek the truth of what their organization is capable of, and strive to truly improve the capacity, rather than trying to force a system to produce what it can't possibly produce.

Consider the Olympics, where results are the only measure of success. Being first, winning the gold medal, being fastest and strongest – this is what the Olympics are all about. The pressure is extremely high to be number one, and the pressure is extremely high to win using whatever you think you can get away with - steroids, blood doping, or other artificial performance enhancing techniques<sup>4</sup>.

Similarly, in professional baseball, concern about steroid use has put all the recent record-breaking performances into question. In schools, cheating on tests and assignments is the most obvious distortion as students strive for top marks; up to 75% of students in high school engage in serious cheating on tests and assignments in the pursuit of better grades<sup>5</sup>.

**Goals, set by management and backed up by reward and punishment, usually work, but not the way you want.**



<sup>4</sup> In the 2004 Athens summer Olympics, 24 doping violations were found, the largest number of any Olympics. As Dr. Jacques Rogge, president of the IOC was quoted in the New York Times, August 30, 2004, "There will always be cheats." The system produces cheats.

<sup>5</sup> Various studies. For good examples, review "Cheating in Academic Institutions: A Decade of Research," Ethics & Behaviour (2001) 11, No 3, 219-232, D.L. McCabe, L.K. Trevino, K.D. Butterfield.

Think about that; grades are the primary way we evaluate students, and three out of four students admit to serious cheating to get better grades. That's staggering! By cranking up the pressure to get better grades, we do produce better grades, not through better education or improved learning, but from cheating and distortion.

There's more to this than just preventing cheating though. Our primary goal should be to improve the method, improve the process, and improve the system, so that we produce consistent, predictable output while truly increasing our ability to produce results. Good results can mask deep flaws in an organization; strong quarterly profit can create the illusion of success, while blinding us to the fact that we have inadequate research, inadequate customer support, disgruntled employees, unhappy customers and other long-term deterioration. The results are important but results can't show us how to create improvement. For real improvement, we need to use our knowledge, skills and wisdom to improve the system so that it can produce better numbers.

In competitive swimming, where you definitely want the best times you can get, your results must be achieved in specific ways. For butterfly, if you happen to use a flutter kick, you'll be disqualified from the race. Achieving good results in butterfly requires that you



swim using certain methods, which don't allow the option of a flutter kick. The method is important, an integral part of how you get the job done. Telling a swimmer their time, and telling them to swim faster in the next race without providing any method for swimming faster, doesn't produce any improvement. To swim faster, you need a coach with the knowledge and expertise to examine your stroke and suggest changes; you need to practice drills to learn and improve technique, increase strength, endurance and aerobic capacity; you need to work on turns and

timing of breaths; then, optimize nutrition, rest, bio-mechanics and attitude – these things can definitely improve times, improve results. By addressing these areas, you will improve the numbers by changing the method, not by distortion. So to get better numbers, focus on improving the process, use knowledge and expertise to make the process work better.

In business, you obviously don't want employees to knowingly ship defective products or empty boxes, or to skimp on quality, or to use creative accounting without actually improving anything in the real world. In education, you obviously don't want students to cheat, or teachers to skew their marking. In sports, you obviously don't want athletes to use drugs to enhance what they are naturally capable of. If you want to run a great organization, you will certainly have numbers and be concerned with results. But you must be more concerned with how those results are achieved. You must look beyond numbers, and work on the methods used to achieve those numbers. This is not micro-management; this is management. Sure, the results count and we all want good results, but if you don't manage the method and instead force people to focus only on results, you'll end up with distorted systems, distorted numbers and no idea what is truly happening in your organization.

Take care out there.