

Robert REINFUSS

# Market of Objectives

(a book excerpt)



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## MARKET OF OBJECTIVES TECHNIQUE

*Market of objectives* is both a managing technique and a management philosophy associated with it, based on the concept of managing by objectives formulated by Peter Drucker. The market of objectives complements Drucker's methodology with contemporary trends in management and IT. The method consists of the setting of individual objectives by managers based on strategic goals outlined by the management board and on the goals of the managers' superiors. These objectives are then agreed on among managers who are active participants in the market of objectives.

Agreements on objectives are initiated by a request for support. Managers specify the support they need and from whom they need it in order to achieve their objective. Through the process of agreements among the participants in the market of objectives, a network of interrelated (correlated) objectives is formed, defining permanent changes within the organisation. Changes are developed through consensus, taking into consideration the interests of customers, internal customers, and other parties involved.

Once the objectives have been defined by the participants, they are modified and approved by their immediate superiors; then the entire network of objectives is modified and approved by the management board. The approved objectives are signed in the form of a contract. The management board directs the organisation with the help of the network of objectives, corrects them throughout the year, monitors them, and accounts for their achievement.

A key to the market of objectives method is the *three indices principle*, which enables managers to be credited for added value. To each objective, a market participant assigns three types of indices: execution indices, used to determine whether the objective has been achieved; quality indices, used to determine whether the objective is of any real value to interested parties; and business indices, which measure the economic value introduced into an organisation by a manager.

Due to the number of transactions concluded within the market, the necessity for efficient communication among the participants, and the short time available for establishing objectives, the market of objectives requires automation. Computerisation is also necessary due to the need for efficient management control over the whole process.

The market of objectives introduces several elements and techniques that have not yet been used in management by objectives. The most important are enumerated below and discussed in detail in the following sections:

- Horizontal correlation of objectives
- Measurement of the execution of objectives via three indices which measure added value
- Accounting for value introduced by a manager, not for results
- Computerisation
- Map of objectives and analysis of their concentration
- Constant supervision over the yearly process of management by objectives

## Horizontal correlation of objectives

The individual objectives of managers are elements of a company's network of objectives, and thus are elements of the company's strategy. For managers to be able to co-create their own objectives and thus to co-create the strategy, the strategy must be open and they must participate actively in its creation. Managers who are aware of what the management board are striving for and how the business they co-create operates will be able to establish and agree on specific objectives together.

There is no better source of knowledge on how to execute a company's strategy than its managerial staff. Including conscientious and qualified managerial staff in the strategic process enables utilisation of the enormous intelligence and knowledge present in the organisation. It also enables much better utilisation of resources and managers' involvement. Using the potential of managerial staff is the most efficient motivational technique I know of.

The process of agreeing on objectives among managers, that is, the correlation process, is key to the organisation's effectiveness. The method's name – and the title of this book, *Market of Objectives* – is derived from this phenomenon.

Cascading objectives, that is, the derivation from and relationship of subordinates' objectives to those of their superiors, only partially solves the issue of correlation. It increases the chance that managers will achieve objectives compliant with the strategy. I call the correlations resulting from cascading *vertical correlations*. Cascading does not, however, solve the very important issue of cooperation and correlation of objectives among managers. Cascading itself creates rivalry and competition for resources rather than cooperation and synergy of action. It is thus necessary to introduce a second type of correlation consisting of agreement on objectives among managers and contracting them jointly. I call such interactions *horizontal*.

In participation techniques of setting objectives, the issue of horizontal and vertical correlations is even more serious than in the case of simple cascading. Upstream initiatives put the integrity of the entire target network in danger. Organisations must thus not only strengthen their control and superiors' responsibility for their subordinates' objectives, but also introduce a horizontal correlation mechanism among managers. The process of horizontal correlations must be governed by procedures and managed by the management board or its proxy.

Because agreeing on objectives among managers requires mutual concessions, obligations and guarantees of execution, the process cannot be left to the goodwill of managers.

In both the company's and the managers' best interest, the market of objectives must impose norms, procedures, rigour, and some form of remuneration. These will stimulate cooperation and give managers – participants in the market of objectives – a sense of security in obligations undertaken.

In the chapter devoted to correlations,<sup>1</sup> I describe in detail the rules which should govern the process of agreeing on objectives.

## Measurement of the execution of objectives via three indices which measure added value

Another mechanism characteristic of the market of objectives is the process of indexing. It is necessary to define indices of the execution of objectives, as they, by definition, are not measurable. An objective is only a description of the state for which a manager strives. The question of what a manager has done and how to achieve his objective is answered by means of execution indices.

Indices define a objective. Let's take a closer look at an example. It is not enough to say that *Good cooperation consisting of scrupulous observation of a new process and service quality standards developed* is the objective. In order to make this objective accountable and understandable to others, indices should be determined to state when the objective must be achieved (the deadline), how we are to know or who will decide whether such cooperation is good, and what the effects will be for the organisation (cost/savings). Only when we know the indices which will enable the objective to be accounted for do we begin to understand it. Therefore indices are a vital part of the definition of an objective, and are necessary for all other participants to better understand the objective and to enable its precise correlation among them. Rules for the formation of three index types, execution, quality, and business, will be addressed in Chapter IX.<sup>2</sup>

Application of the indexing technique has another very important purpose. Indices are used for self-discipline and self-monitoring, which are, as Drucker claimed, among the fundamental premises of MBO. The principle of three indices, described in a later chapter, has an enormous impact on the motivation of people who set an objective. Well-defined indices describe measurement rules precisely enough to force the manager to enforce discipline and meet the requirements outlined in the indices. Quality indices force the manager to achieve consensus and consider the opinions of interested parties. Business indices force the manager into business thinking and the calculation of risk and costs. Execution indices make the manager observe deadlines scrupulously. Well-defined indices not only help the supervisor and render constant supervision unnecessary, but they also do it efficiently and in a way that is more pleasant for both superiors and subordinates.

*The principle of three indices* changes the way we perceive objectives and the whole method of management by objectives. It enables the measurement of added value introduced into the organisation by a manager. This is a skill managers most often lack and is necessary for the MBO system to work efficiently. Inability to account for objectives and inability

<sup>1</sup> Chapter V. Market of Objectives Technique

<sup>2</sup> Chapter VI. The principle of three indices

to account for managers are the main reasons management by objectives is abandoned for management by results. Results are easy to measure. Inability to account for objectives has resulted in the introduction of the notion of *quality objectives*, that is, objectives that cannot be accounted for precisely. Instead of self-monitoring, subordinates are accounted for in a discretionary manner. Discretion leads, in turn, to remodelling managers' relationships with superiors at the expense of orientation towards objectives. Objectives accounted for in a discretionary way either contribute very little or are not executed at all.

I believe that only minute exactitude when establishing and applying the three index types to each objective affords a chance of achieving real self-discipline and self-monitoring on the part of managers and enabling a truly ambitious objective to be set. If indices are not well defined, the MBO system drifts naturally towards measurement by results alone.

## Accounting for added value introduced by a manager, not for results

The notion of value introduced by managers into a business organisation (added value) is key to the method of the market of objectives. I understand value introduced by a manager into an organisation in a way similar to that presented by M. Robson and P. Ullah in their 1996 book, *A Practical Guide to Business Process Re-engineering*<sup>3</sup>: as changes, improvements, or new products a manager creates and implements in the process of creating final value for a customer. By proposing, developing, and introducing changes, a manager increases the company's value, because he increases the potential for generating value for the customer.

The market of objectives, just as in the classical take on management by objectives, promotes added value introduced by managers in person, not the business effect the company achieves as a result of the manager's actions.

Only a change that increases the company's value permanently can be an objective in business management. Of course, changes are introduced so that the company will achieve better results and increase its value. The business efficiency of the market of objectives results from the fact that it establishes a clear border between managers' objectives – that is, the value they introduce personally – and the results the company achieves through their actions. Thanks to the focus on added value, the quality of communication among managers, management control, and involvement of managerial staff are improved incrementally. Differentiation between objectives and associated added value from results achieved by a company is thus key to the market of objectives method.

Accounting for added value introduced by managers, calculated by means of indices and according to the three indices principle, is difficult. The difficulties are caused by the inability to define those objectives that truly introduce value and increase the company's value, and by inability to measure using indices.

<sup>3</sup> Wike Robson and Philip Ullah, *A Practical Guide to Business Process Re-Engineering*, 1996

Application of the *principle of the three indices*, presented in the following chapter, enables a return to Drucker's original idea<sup>4</sup> of managing by objectives. Thanks to the set of three indices, the value of an individual manager's contribution to a company can be designed and measured. This, in turn, enables objectives concerning not only results and efficiency, but the company's development and permanent changes, to be set. A return to classical management by objectives is at the same time the basis for the effectiveness of the market of objectives. Achieving incremental company development and improvement of results, along with increasing managers' involvement in the management process, is possible because we are able to measure their individual contributions. Therefore, we can influence their motivation much more successfully.

Chapter IX, *Managing value introduced by managers*, explains how I understand value introduced by managers and how to measure it.

## Computerisation

The need for the computerisation of management by objectives results from several features key to this technique. First of all, if MBO is to be a participative technique, participants must communicate with one another at the stage of defining and contracting objectives and must be fully informed of other participants' plans. Computerisation must thus enable structured and aggregate communication among participants. This is the most important reason for the computerisation of management by objectives.

Secondly, if MBO is to be the system of management, management board must have comprehensive information on what objectives are being executed and how, and must be able to easily correct objectives set by managers at any time. Computerisation of the market of objectives enables analysis of correlations and the substance of objectives to an extent not possible otherwise. It essentially changes the effectiveness and role of methods in management. The management board of Bank Pocztowy, where the computerised version of the market of objectives was implemented for the first time on a large scale, demanded the following options as early as the implementation stage:

- full analysis of correlation of objectives indicating which strategic objectives might not find sufficient support in managers' activities
- analysis of non-correlated objectives in terms of their business justification
- risk analysis concerning the realisation of savings (cost objectives)
- calculation of ROI for implementation and for a future bonus system based on the market of objectives and correlation indices

Such comprehensive analyses would not be possible without an IT platform.

The computerised market of objectives is a modern technique that can be adjusted as well to global, decentralised, and widely diffused companies, where the lines between external consultants, associates and employees are often blurred.

Another important reason for the computerisation of objectives is, therefore, the effectiveness

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<sup>4</sup> P. F. Drucker, *Praktyka zarządzania*, MT Biznes sp z oo, Rozdz.11 Zarządzanie przez cele i samokontrolę

of managerial control and communication between managers and participants. This effectiveness is also needed for updating objectives and their correlation throughout an accounting period.

The third reason for computerisation is efficiency in the administration of objective processes. It enables tracking of the entire process online. Thanks to computerisation, constant monitoring of the timeliness of the process and methodological correctness of the market are possible. Communication with participants in the market of objectives is almost continuous; objectives are corrected with any organisational change or change of priorities, as well as during scheduled reviews.

This spells the end of objective sheets being put away as soon as they are created and defining objectives at the last minute for bonus purposes. The platform administrator and the management board are able to monitor the process easily and to communicate with the participants. Thanks to open access to the IT platform, the participants' self-monitoring becomes the basis for process control.

## Map of objectives and analysis of their concentration

A system of objectives should be visualised as a map of objectives showing relationships, that is, the correlations among objectives, the structure of these relationships and the concentration of the objectives around strategic goals. It constitutes, in a sense, a control panel used by the management board to run the company.

Changes to the strategy are reflected first in changes to the layout of objectives. In a large company, this is a complex process often concerning many people who are not necessarily related to one another formally through the hierarchy. Each decision and each correction may concern a number of specific objectives.

Let's try to imagine a situation. A company with ca 1,400 employees should include at least 100 managers in the system of individual objectives, which means that ca 300 to 400 objectives are set annually. The impact of such a network of objectives on the company is enormous. Each imbalance or faulty prioritisation may have a negative effect on the company's value. Meanwhile, objectives are being corrected throughout the year. The questions are how not to get confused by so many objectives and how to keep the entire network consistent.

In order to manage an organisation effectively and adjust the objective system to a changing strategy, the management board must have access to a picture – one friendly to holistic analysis – of the system of objectives. Management boards do not have the time to analyse each manager's objectives individually. They should receive comprehensive analyses and reports. For analysis and management of an objective system, it is thus necessary to employ a tool I call a map of objectives, that is, a schematic showing the interrelationships between objectives.

The map of objectives, which somewhat resembles an organisational chart, enables us to trace which specific objectives work on behalf of higher-ranking goals. These are so-called vertical correlations. The map of objectives should also depict relationships between objectives within one level. These are so-called horizontal correlations. Monitoring such relationships is important because they testify to the quality and intensity of formal coop-

eration among the managers of various departments in a company. Horizontal relationships (correlations) also constitute important information in the case of changes to specific objectives. Based on these relationships, the impact of such changes on other participants in the system can be predicted.

The third crucial piece of information analysed based on the map of objectives is the concentration of objectives. The number, quality and importance of objectives supporting particular strategic goals shows what kind of support they will get in operational activities. A low concentration may indicate that a given strategic objective will not be executed. A high concentration may indicate too great a cost for the execution of a given objective.

Analyses of concentration should be performed first of all by management board members responsible for individual strategic objectives. In their analysis, they should take into consideration not only the amount but also the type and scope of supporting objectives.

## Constant supervision over the yearly process of management by objectives

Computerisation enables the constant presence of a management expert who plays the role of administrator and co-manager of the process of objectives in the company. This is a discrete presence, executed through the platform. Such a consultant may nevertheless play a very important role in the company. He not only monitors the correctness of the process but also constitutes a real support in setting and indexing objectives. Such a role has not worked out in existing MBO systems so far, although everyone is aware of the need for arbitral support. Precision in setting objectives, indices, and online access to the entire map of objectives lends sense to the collaboration of the administrator with the participants and constitutes real value for the company. The superiors of the participants in the market of objectives usually do not have the time to set, monitor, and account for their subordinates' objectives. The individual who manages the market of objectives can support them in the correct and timely management of the process.

The absence of computerisation and of an administrator for a system of objectives results in a tendency for the systems to die out through extinction of the process or loss of value. The dying systems of objectives I come across in Poland are characterised by repetitive defects. They are often devalued to the role of a bonus procedure, barely overseen by the management board. The reasons given by my clients for this extinction include the following:

1. Systems of objectives are not updated on a regular basis. Objectives 'are put away in a drawer' and the business runs regardless of the objectives set.
2. Management boards do not really know what is included in the objectives because they are not interested in the topic. They have lost faith in systems of objectives and prefer to manage 'manually'.
3. HR departments come across huge difficulties in enforcing the timeliness of the process.
4. MBO administrators do not function as partners of the management board when it comes to discussing business objectives.

I propose a solution to the above-mentioned problems through employing an external expert for the market of objectives in companies managed by objectives. This expert would be responsible for timeliness, methodological correctness and updating objectives. The expert's status of a partner in managing the company must be accepted by the management board. The increasingly common outsourcing solutions prove that in some situations, such as the management of managerial staff, it is often more convenient for management boards to work with an independent expert rather than their own employee. Due to hierarchical relationships, it would be difficult for a HR head or a management board member responsible for HR policy to fill this role. Managing the market of objectives requires competences and time, qualities which are often incompatible with the role of a management board member. HR directors might possess such competences, but their relationships with the board often make it impossible for them to act as arbiters or economists.

The expert should be hired from outside the company.