

# **PLANNING AND GOAL SETTING FOR SMALL BUSINESS**

*Management and Planning Series*

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## **INTRODUCTION**

Many authorities on business management identify the five major functions of management as

- ! Planning.
- ! Organizing.
- ! Directing.
- ! Controlling.
- ! Coordinating.

The planning and controlling functions of management often receive less attention from the small business owner-manager than they should. One way to more effectively fulfill these two functions is through effective goal setting.

The success of a business will depend on its long-range goals for sales, profits, competitive position, development of personnel and industrial relations. To accomplish these goals, the company will need to identify intermediate goals that it can work toward each year.

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## **MANAGEMENT BY OBJECTIVES**

Traditionally, people have worked according to descriptions that list the activities or functions of the job. The management by objectives (MBO) approach, on the other hand, stresses results.

Let's look at two examples.

- ! Suppose a credit manager's job description states that he or she will supervise the credit operations of the company. This description simply lists the functions of the credit manager. Under the MBO approach, the owner-manager and the credit manager would identify five or six goals covering important aspects of the manager's work. For example, one goal might be to increase credit sales enough to support the 15 percent increase in sales expected by the sales department.
- ! The traditional job description for a personnel specialist may include conducting a recruiting program for the company. Under the MBO approach, the personnel specialist would identify five or six appropriate goals, one of which could be, Recruit ten new employees in specified categories by July 1.

With MBO, jobs are viewed in terms of achievements rather than simply functions. Activity alone is not enough; each activity must bring the worker closer to achieving his or her goals.

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## **PREPARING FOR THE MBO PROGRAM**

### **Understanding the Requirements of an MBO Program**

Management by objectives has been used by all kinds of organizations, but not every business has had the same degree of success. From examining MBO programs that have worked, it is clear that all met the following minimum requirements:

- ! Goals were expressed in specific and measurable terms.
- ! Each employee proposed 5 to 10 goals to cover those aspects of his or her job crucial to successful performance.
- ! A final written statement of each goal was prepared, including a statement of the goal, method of evaluating the goal, work steps needed to complete the goal and an estimated time needed to complete the steps.
- ! Progress was evaluated at regular intervals (at least quarterly) and compared with the original goals.
- ! Problems that hindered progress were identified and corrected.
- ! Goals were related to each level of management, both those above and those below.

### **Defining Your Business**

The first step in developing an effective MBO program is to define your business. Ask yourself the following questions:

- ! What business am I in?
- ! Is my definition right for today's market?
- ! Do I need to change my business to meet emerging customer needs?

A clear vision of your business is crucial for planning your marketing, product development, buildings and equipment, and financial and staff needs. For example, a drop in sales caused a small business manufacturer of metal trash cans to reexamine its product. To regain lost sales, the owner decided to redefine the product as metal containers and to develop a new marketing plan.

### **Setting Goals**

Long-range business goals will be the cornerstone of your company's MBO program. To achieve these goals, you must have a method to communicate them to your managers and employees. One way is to bring managers and employees into the process by asking them to help formulate the company's short- and long-range goals. If they have a role in establishing the goals, they will be more committed to achieving them.

All goals should relate to and support the long-range objectives for the company. In this way, you can ensure that the goals of all levels of management are consistent. If goals are incompatible, you may find that employees feel like the middle manager of a research and development company who exclaimed in a seminar, How can I set my goals when I don't know where top management wants to go?

### Types of Goals

What areas of your managers' work are suitable for goal setting? Ask managers to identify the most important aspects of their work. In each area, they should set both short- and long-term goals. Carefully developed goals, if attained, should give the manager better control of the job. Each manager should define one or two goals in each of the following categories:

- ! Regular work goals.
- ! Problem-solving goals.
- ! Innovative goals.
- ! Development goals.

By asking your managers to set at least one goal in each of these four areas, you may open their eyes to new possibilities they had not seen before. The goal-setting process can be a very useful educational step.

### Regular Work Goals

These include the major part of the manager's responsibilities. For example, the head of production should focus on the quantity, quality and efficiency of production and the head of marketing should concentrate on developing and conducting the market research and sales programs. In defining their regular work goals, employees should include ways of

- ! Operating more efficiently.
- ! Improving the quality of the product or service.
- ! Expanding the total amount produced or marketed.

### Problem-Solving Goals

These provide managers an opportunity to define their major problems and to set a goal to solve each one. There is no danger of ever running out of problems; new problems or new versions of old problems are always present.

### Innovative Goals

Because of the push for new products and new methods in today's marketplace, innovation now gets much attention in seminars and publications for top managers. Managers and workers should seek new and better production methods, explore better ways to serve customers and propose new products for the company. Managers will need to use innovative approaches to make the company competitive in a fast-changing national and international economic environment.

### Development Goals

In setting development goals, you and your managers recognize the importance of acquiring new skills. Managers should plan for the continued growth of each employee, both in technical areas and in work relations with fellow employees.

### **Devising a Work Plan**

You and your managers should use a miniature work plan to develop goals that are complete and useful (see Exhibit 1). In developing the plan, the following five areas should be addressed:

- ! *Goal* -- Be specific and concise.
- ! *Measurement* -- What benchmarks will you use to measure whether you have achieved your goals? These usually can be expressed in quantitative terms.
- ! *Major problems anticipated.*
- ! *Work steps* -- List three or four of the most essential steps. Give completion dates for each.
- ! *Supervisor's goals* -- Employees should identify which of their manager's goals relate to their own goals.

On the work plan, managers can show each of the major work steps (subgoals) necessary to reach a goal. If the work steps are completed by the indicated date, the goal is reached.

Use the form in Exhibit 1 to discuss goals with your managers. By looking at the form, you can see not only the goal but also the plan for reaching that goal. This will allow you to (1) ask questions about the work steps and any potential problems; (2) decide the best way to evaluate progress on the goals and (3) help each of your managers understand how his or her goals relate to those of the company.

All problems listed on the work plan should include a solution. For example, suppose the head of a supply department sets a goal to deliver all packages within one day after they are received. Because employees may have difficulty meeting the new deadlines, the work plan should include necessary steps to teach them the new procedures before the program goes into effect.

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**Exhibit 1 Plan to Achieve Objectives**

SUPERVISOR: \_\_\_\_\_

OBJECTIVE #1: Increase gross sales margin of my area by 12 percent by 9-1-92 and maintain at that level for remainder of 1992.

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|   | Major Action Steps      January - December |  |  |  |   |   |   |   |   |  |   |   |
|---|--|--|--|--|---|---|---|---|---|--|---|---|
|   | J F M A M J J A S O N D                    |  |  |  |   |   |   |   |   |  |   |   |
| 1. Decrease cost of serving small accounts.                             |  |  |  |  |   |   |   |   |   |  |   | X |
| a. Identify all customers not purchasing \$5000 per month.              |  |  |  |  |   |   |   |   |   |  |   | X |
| b. Determine sales potential of each target customer.                   |  |  |  |  | X |   |   |   |   |  |   |   |
| c. If potential is less than \$5000,, transfer to jobber.               |  |  |  |  |   |   | X |   |   |  |   |   |
| d. Inform customer and schedule jobber visit with customer.             |  |  |  |  |   | X |   |   |   |  |   |   |
| e. If potential is \$5000, develop cooperative sales promotion program. |  |  |  |  |   |   |   | X |   |  |   |   |
| f. Implement program.   |  |  |  |  |   |   |   |   | X |  |   |   |
| g. Evaluate & report results.   |  |  |  |  |   |   |   |   |   |  | X |   |
| 2. Increase minimum calls per salesperson to 10 per day.                |  |  |  |  |   |   |   |   |   |  |   | X |
| a. Analyze work methods of high call salespersons.                      |  |  |  |  | X |   |   |   |   |  |   |   |
| b. Identify salespersons with fewer than 10 calls placed.               |  |  |  |  |   |   |   |   |   |  |   | X |
| c. Analyze territory and order of calls.                                |  |  |  |  |   | X |   |   |   |  |   |   |
| d. Determine best routing of calls.                                     |  |  |  |  |   |   | X |   |   |  |   |   |
| e. Determine most effective realigning of all territories.              |  |  |  |  |   |   |   |   | X |  |   |   |
| f. Implement plans.   |  |  |  |  |   |   |   |   | X |  |   |   |
| g. Evaluate & report results.   |  |  |  |  |   |   |   |   |   |  | X |   |

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**Reporting Progress**

An MBO program must include a provision for regular progress reports. For this reason, the MBO concept is sometimes called MBO/R, where the R refers to results. You and your managers will only accomplish your goals or objectives if the MBO program calls for a regular review of progress. For example, one large organization issued nearly 100 pages of well-developed goals prepared by many of its managers. The document was very impressive, but it lacked a reporting system of any kind. You can imagine the skeptical reaction of those who set goals for the first year when they were asked the following year to draw up new goals.

A monthly or quarterly review of progress toward goals will help you determine where progress is below expectations. For example, suppose that one of your goals is to reduce overtime work by 50 percent in one year, but you only reduce it by 15 percent in the first quarter. Based on this information, you can exert a special effort in the succeeding quarters to regain the lost ground.

When progress is below expectations, you should identify the problems holding back progress and assign someone to resolve them. Failure to reach goals can result from

- ! The wrong objectives being established at the outset.
- ! Organizational restrictions being overlooked.
- ! Personal failure or a combination of factors.

In order to solve problems and meet a goal, managers may have to adjust their time line or change the goal itself. All changes should be written as new goals and included in the MBO files.

### **Evaluating Performance**

In contrast to traditional methods, which evaluate performance based on personal qualities such as leadership ability, the MBO method evaluates performance based on objective results. Such evaluation is a complex task that must be undertaken with care by someone who fully understands MBO. (See Exhibit 2 for a comparison of traditional and MBO evaluation methods.)

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**Exhibit 2**  
**Comparison of Traditional and MBO Evaluation Methods**

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| Characteristic | Traditional method            | MBO method                 |
|----------------|-------------------------------|----------------------------|
| Frequency      | Usually annually (if at all). | Usually quarterly.         |
| Emphasis       | Traits.                       | Results versus objectives. |

|                             |  |  |
|-----------------------------|--|--|
| Subordinate's frame of mind | Mental block. (doesn't know how traits will be evaluated).   | Positive (feedback has told employee how well he or she is doing). |
| Suggestions for improvement | Poor receptivity (much has been based on employee's traits). | Positive (much has been based on employee's job performance).      |
| Tie in to rewards           | Rewards usually not directly tied in.                        | Rewards usually tied directly to results.                          |
| Summary                     | Little connection to results.                                | Results oriented.  |

Under the MBO program, you evaluate your managers' performance based on whether they have achieved their five to eight goals. You also must determine how well they have performed the secondary duties that do not fall under goals. (See Exhibits 3 and 4 for examples of traditional and MBO performance evaluation forms, respectively.)

**Exhibit 3**  
**Example of Traditional Performance Evaluation Form**

| Factor                             | Excellent | Above average | Average | Below average | Poor |
|------------------------------------|-----------|---------------|---------|---------------|------|
| Degree of cost-consciousness       |           | X             |         |               |      |
| Grasp of function                  | X         |               |         |               |      |
| Initiative                         |           | X             |         |               |      |
| Decision-making ability            | X         |               |         |               |      |
| Application                        | X         |               |         |               |      |
| Judgment                           |           | X             |         |               |      |
| Health                             | X         |               |         |               |      |
| Appearance                         | X         |               |         |               |      |
| Loyalty                            | X         |               |         |               |      |
| Relationship with people           |           | X             |         |               |      |
| Ability to develop subordinates    |           |               |         | X             |      |
| Work habits                        |           | X             |         |               |      |
| Contribution to company's progress | X         |               |         |               |      |
| Potential for advancement          |           | X             |         |               |      |

Employee: \_\_\_\_\_ Rated by: \_\_\_\_\_

Date: \_\_\_\_\_ Reviewed by: \_\_\_\_\_

Acknowledgment:

I acknowledge this performance appraisal has been discussed with me. This acknowledgment does not constitute agreement with the findings.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

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**Exhibit 4 -- Results-Oriented Evaluation Form**

| Objectives  | Measure   | Results achieved |            |     | Total year                       |
|---|---|------------------|------------|-----|----------------------------------|
|   |   | Quarters         | Total year |     |                                  |
|   |   | 1st              | 2nd        | 3rd |                                  |
| 1. Improve by 10% number of qualified applicants referred for job openings. | 1. At least three qualified candidates referred for each job opening. | T                | O          | T   | Achieved in 97 percent of cases. |
| 2. Increase by 12% number of qualified welders during 19xx.                 | 2. Number of persons completing basic welding course #5.              | O                | T          | T   | 17 completed course.             |

Note: T = On target. No action necessary. O = Off target. Action necessary.

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## INSTALLING THE MBO PROGRAM

When installing an MBO program, start by asking your managers to define their jobs, including their major responsibilities. Then, for each responsibility, you and your managers must decide the most effective way to measure performance in terms of results. The outcome of this exercise may surprise you. You and your managers may not agree on the major responsibilities of a certain position. Also, you may find that no one is performing some functions that you consider important. If the MBO system is to succeed, you must show interest from the beginning and set the example for your subordinate managers.

The education of your managers may be a formidable task. Until this time, they have thought in terms of specific functions managing a sales department, directing a credit office, etc. rather than in terms of goals that contribute to the organization.

One way to introduce the MBO system to your managers is in a seminar conducted by you or a consultant. However, if you choose a consultant, be sure that you are present for the entire seminar. In this way, you will communicate to your managers that the MBO system is a

management priority.

During the seminar, ask each participant to prepare an actual goal. Also, in small group sessions, have your managers review each other's work plans and offer suggestions to improve them. The experience of setting and reviewing goals makes MBO a learning experience for all employees.

Encourage your managers to express their doubts, reservations or opposition to MBO. They should get their feelings out in the open as soon as possible. You, the consultant or other participants can help to ease their concerns.

In the beginning of your MBO program, your managers will have to learn to measure their own performance accurately, anticipate real problems that will thwart their progress and take steps to solve delays and other problems. During this learning period, your managers should set fewer goals than would usually be expected, perhaps three or four. After they develop and achieve these goals, they can extend the number and area covered by each goal.

MBO may look simple on the surface, but it requires experience and skill to make it work effectively. If managers set annual goals, it may take three to four years before good results from this new system appear.

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## **THREATS TO AN MBO PROGRAM**

Not all MBO programs are successful. Some of the reasons why programs fail to reach their potential are

- ! Top management does not become involved.
- ! Corporate objectives are inadequate.
- ! MBO is installed as a crash program.
- ! It is difficult to learn the system because the nature of MBO is not taught.

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## **SUMMARY**

It is hard to get people to think in terms of results rather than the functions of their job; however, it can be done. The sequence of steps you use may not work for someone else. It is often an individual matter. No matter what steps you use, the final results are what count.

If you feel that you are ready to introduce MBO to your company, why not set it as a goal for yourself? Turn back and follow through with the work plan. List your goals, method of measurement, anticipated problems and the work steps necessary to get your company managing by objectives.

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## **APPENDIX: INFORMATION RESOURCES**

### **U.S. Small Business Administration (SBA)**

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in The Small Business Directory. For a free copy contact your nearest SBA office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- ! **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- ! **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- ! **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

### **Other U.S. Government Resources**

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. You can request a Subject Bibliography by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

**Consumer Information Center (CIO)**

P.O. Box 100  
Pueblo, CO 81002

The CIO offers a consumer information catalog of federal publications.

**Consumer Product Safety Commission (CPSC)**

Publications Request  
Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

**U.S. Department of Agriculture (USDA)**

12th Street and Independence Avenue, SW  
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

**U.S. Department of Commerce (DOC)**

Office of Business Liaison  
14th Street and Constitution Avenue, NW  
Room 5898C  
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

**U.S. Department of Health and Human Services (HHS)**

**Public Health Service**

**Alcohol, Drug Abuse and Mental Health Administration**

5600 Fishers Lane  
Rockville, MD 20857

Drug Free Workplace Helpline: 1-800-843-4971.

Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline: 1-800-662-4357. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free.  
Provides pamphlets and resource materials on substance abuse.

**U.S. Department of Labor (DOL)**

**Employment Standards Administration**

200 Constitution Avenue, NW  
Washington, DC 20210

The DOL offers publications on compliance with labor laws.

**U.S. Department of Treasury**

### **Internal Revenue Service (IRS)**

P.O. Box 25866

Richmond, VA 23260

1-800-424-3676

The IRS offers information on tax requirements for small businesses.

### **U.S. Environmental Protection Agency (EPA)**

#### **Small Business Ombudsman**

401 M Street, SW (A-149C)

Washington, DC 20460

1-800-368-5888 except DC and VA

703-557-1938 in DC and VA

The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

### **U.S. Food and Drug Administration (FDA)**

#### **FDA Center for Food Safety and Applied Nutrition**

200 Charles Street, SW

Washington, DC 20402

The FDA offers information on packaging and labeling requirements for food and food-related products.

### **For More Information**

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- ! **Trade association information**  
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- ! **Books** -- Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.
- ! **Magazine and newspaper articles** -- Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.