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MBO PRACTICES IN THE BANKING SECTOR OF TURKEY

by

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## MBO PRACTICES IN THE BANKING SECTOR OF TURKEY

This study aims at examining the present MBO practices being applied in the banking sector of Turkey, the perception of the concept as viewed by managers employed in this domain, the factors influencing their performance and satisfaction.

The scope of the study covered two foreign, and two domestic banks, employing MBO programs within their organizational structure.

The results indicated that there was a strong potential for future practices in this sector, which may provide organizations with the desirable outcomes of better performance, improved relations, and efficient operations throughout the complete range of their activities.

## TÜRK BANKACILIK SEKTÖRÜNDE AMAÇLARLA YÖNETİM UYGULAMALARI

Bu çalışmanın amacı Türk bankacılık sektöründe var olan amaçlarla Yönetim uygulamalarını incelemek, konuya bu alanda çalışan yöneticilerin bakış açısıyla yaklaşmak, başarı ve tatmin düzeylerini etkileyen faktörleri ortaya koymaktır.

Çalışmanın kapsamına, kurumsal bünyelerinde Amaçlarla Yönetim programı uygulayan ikisi yerli, ikisi de yabancı olmak üzere toplam dört banka dahil edilmiştir.

Bulgular, sektörün gelecekteki olası uygulamalar için kuvvetli bir potansiyele sahip olduğunu, ve kurumların bu uygulamalara bağlı olarak faaliyet alanlarının tümünde performans düzeyinde artış, insan ilişkilerinde gelişme, ve etkinliklerde verimlilik gibi arzulanır sonuçlar elde edebileceği yönündedir.

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## I. INTRODUCTION

The banking sector in Turkey is currently living an era marked by high competition, innovation, and structural development.

The pre 1980 period was dominated by domestic banks operating in an environment which yielded great profits due to the appreciable difference between deposit and credit rates. As stated by their managements, foreign banks had been hesitant to enter the market in Turkey since the unstable economic and socio-political situation carried large risks for their operations. According to the same sources, after the stabilization brought about by the 1980 intervention, which formed a desirable climate for operation, foreign banks started stepping in with the desire of getting a share from the profitable environment. They brought along moderate amounts of foreign capital and aimed at gaining earnings by accomplishing high turnover rates; still having doubts as to the risk they undertook. Instead of spreading nationwide, these foreign banks mostly preferred to establish only a single office and carry out their operations from there on.

Foreign capital was not the only element that was brought into the market by foreign banks. They also introduced new technological facilities and services, along with organizational concepts and structural formations which were also something new to the market. It didn't take too long before domestic banks started integrating the recent

technological developments into their operations. However, some time had to pass before their managements started realizing the fact that structural changes, aimed at providing organizational development, were essential for better operational efficiency if they were to confront the competitive nature of the expanding market.

Management by Objectives was a practice that emerged and spread in the sector during this post 1980 period. A majority of the foreign banks brought with them the concept and immediately based their operational activities on this well structured and tested philosophy. Each had their own variation of the theme, but the crucial point was that their practices were global and clear cut, due to the fact that they had been designed and implemented in the banks' countries of origin. Having started its operations in Turkey as of the year 1976, Citibank is the only bank in the country with an MBO practice expanding back into the pre 1980 period.

This competitive environment of the eighties led domestic banks to consider forming an MBO framework within their structure and integrating their operations with this management concept.

This study is an attempt to examine the MBO practices taking place in the Turkish banking sector, the perception of the concept by managers working in this domain, and their satisfaction levels with regard to the philosophy.

## II. THEORETICAL BACKGROUND OF THE STUDY

### 2.1. MBO as a Concept

The first statements about managing by objectives were put forward by Drucker (1954) and Mc Gregor (1960), and ever since then, organizations have made increasing use of the method known as Management by Objectives, or simply MBO. Although a major section of the early discussions of MBO emphasized its use as a tool for development of more objective criteria for performance evaluation, later on it became apparent that subordinate participation in goal setting yielded greater levels of ego involvement, increased motivation, and increased planning behavior; all of which contribute to overall performance.

In its broadest sense, Odiorne (1965) described the MBO process as one in which 'the superior and the subordinate manager of an organization jointly define its common goals, define each individual's major areas of responsibility in terms of the results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members'. The logic of MBO has indeed been found attractive due to the intrinsic desirability that exists toward a method that motivates performance and enhances measurement while increasing the participation and involvement of subordinates.

Mali (1972) defines the MBO approach as one which consists of five major phases:

1. Finding the objective
2. Setting the objective
3. Validating the objective
4. Implementing the objective
5. Controlling and reporting status of objective

According to the author, the concept of MBO begins with a deliberate and systematic identification of results needed by the organization for survival, growth, improvement, or problem solution. The broad areas of potentially usable targets identified, later on provide the basis for adopting and setting the objective. The formal statement of objectives developed is then held subject to a validation procedure, thus determining the confidence an individual, department, or organization may have as to the completion of an objective within its stated time. Once a validated statement of commitment has been made, a motivational system is created to implement completion of the commitment. The last phase of the process is based on the principle that progress can only be measured in terms of what one is trying to make progress towards, thus it sets up all activities under a schedule in order to measure and report the current status, as well as progress toward completing the objective.

Mali, also views the MBO approach as a process in which the aim is to minimize the disparity between organizational and individual goals.

He states that actual results will improve in organizations as the angle of disparity decreases, as seen in Figure 2.1.1.

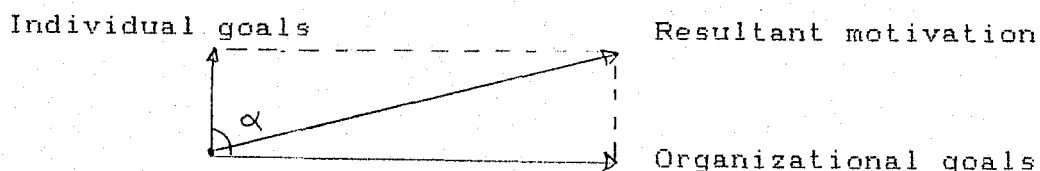


FIGURE 2.1.1. The Angle of Disparity

Elements of MBO. According to Tosi, and Carroll (1970) the success of MBO is dependent upon three of its basic aspects:

1. goals and goal setting
2. participation and involvement of subordinates
3. feedback and performance evaluation

These three elements are the determining factors in effectively implementing the technique in any type of organization.

Goals and Goal setting. A number of studies conducted by Locke (1967) have demonstrated that when an individual or group has a specific goal, higher performance is observed, than when the goals are general or have not been set. High performance is usually associated with higher individual or group goals.

Participation. There have been diverse findings about the relationship of participation in decision making and productivity. These contradictory findings have been resolved by stating that participation will have positive effects on productivity if the subordinate perceives it to be

legitimate. Furthermore, participation is believed to have an effect on the degree of acceptance of decisions reached mutually. Evidence stated by Vroom (1971) also suggests that involvement and participation are correlated positively with the level of job satisfaction.

Feedback. Laboratory and field research conducted by Wertz (1954), Smith (1957), Leavitt (1951), have both revealed that relatively clear, unambiguous feedback increases problem solving capacities of groups and improves the performance of individuals. Feedback also seemed to create positive attitudes, increased confidence in decisions and greater certainties of superiors' expectations.

According to Tosi and Carroll (1970), feedback, in the form of formal appraisal in a work setting, when based on relatively objective performance standards, tends to be related to a more positive orientation by subordinates of the amount of supervision their boss exercises.

Subordinates are more likely to take positive actions when feedback is viewed as supportive and is objectively based.

Objectives. MBO, by nature, emphasizes the future and change, since an objective or goal is an end state, or a condition to be achieved or have effect at some future time. The emphasis is mainly on where the organization is going, its intended accomplishments and the ways of reaching them. Objectives can be thought of as statements of purpose and direction, formalized into a system of management. They

They may be long range or short range. They may be general, to provide direction to an entire organization, or they may be highly specific to provide detailed direction for a given individual.

One of the crucial purposes of MBO is to facilitate the derivation of specific from general objectives, seeing to it that objectives at all levels in the organization are meaningfully located structurally and linked to each other. Sets of objectives for an organizational unit are the determining bases which define its activities. A set of objectives for an individual may be thought of as a different way to provide a job description which determines his job. Once objectives are determined and accepted by organizational units and by partaking individuals, means of performance required for accomplishing the objectives may be worked out.

Though objectives may or may not require change, MBO is deemed most appropriate in situations where activities tend not be recurring or repetitious, where change towards new or improved conditions is desired.

Objectives may originate at any point in the organizational structure, hence should be derived from the general purposes of the organization and be consistent with its philosophy, policies, and plans.

Tosi, Rizzo, and Carroll (1970) pointed out the following accomplishments of stating objectives:

1. Documents expectations in superior-subordinate relationship regarding what is to be done and the

level of attainment for the period covered by the goal.

2. Provides members with a firmer base for developing and integrating plans, and personal and departmental activity.
3. Serves as a basis for feedback and evaluation of subordinates' performance.
4. Provides for coordination and timing of individual and unit activities.
5. Draws attention to the need for control of key organizational functions.
6. Provides a basis for work-related rewards as opposed to personality-based systems.
7. Emphasizes change, improvement, and growth of the organization and the individual.

The stated objectives or goal statements have at least two key components; one of which is the area of activity in which accomplishment occurs, and the second, a specification of the level of achievement, the quantity or deadlines to be met.

An objective, according to the synthesis of various literary views, should be:

- concise and unambiguous
- accurate in terms of the true end state or condition sought
- consistent with policies, procedures, and plans as



they apply to the unit

- within the competence level of the individual, or provide him a reasonable learning and developmental experience
- interesting, motivating, and/or challenging whenever possible

Scope and Types of Objectives. Developing objectives for a manager which would cover each and every area of responsibility would be very difficult to conceive, since the structure of most jobs is simply too complex for that. However, once objectives are set for a position, they should comprise the major description of the job, and their achievement should collectively be assessed in light of what is known about the total job requirements. One important fact here is to avoid a sense of interference or conflict between objectives and other job requirements.

Tosi, Rizzo, and Carroll (1970) state that there are namely two types of objectives:

1. Performance objectives
2. Personal development objectives

Performance objectives are those goals and activities that relate to the individual's position assignment. Personal development goals have to do with increasing the individual's competence, skills and potential to levels higher than the current one. The delineation of objectives into the types stated above allows for a balancing among the objectives set for an individual, thus ensuring that he is problem-solving

developing, and maintaining critical functions.

1. Performance Objectives: This type is a derivation extracted directly from the job assignment itself, from major areas of responsibility and the activities that the individual must sustain or manage.

Maintenance of recurring or routine activities, the solving of problems, or the creation of innovative ideas, services, products and the like could be considered to be among performance objectives. Meanwhile, a part of these may take the form of special activities or projects, not normally part of the job.

It is evident that by its very nature, organization imposes restrictions on individuals. Therefore, it is vital that the areas in which the subordinate has some latitude be spelt out so that he will have an idea on his decision limits. Hence it is important that to determine and communicate to the subordinate what these discretion areas are. Organizational level is an important limitation on discretion, that is, the lower the organizational level, the more and more narrow is the zone of a manager's discretion. One factor, other than organizational level, causing variation in the discretion range for a particular job is the changing competency levels of the incumbent. As the individual's competence level expands, he may be offered broader decision areas in which he would confront additional additional and more challenging goals within the parameters of the job. For those areas beyond the discretion limits, the

subordinate's role may be contributing information and assistance, but this type of activity has to be differentiated from goal setting participation, in which the individual has a word over the final shape and form of the goals and activities.

2. Personal Development Objectives: The critical aspect of these objectives lies in their potential as means to combat obsolescence under a rapid expansion of knowledge, to prepare people for increased responsibility, and to overcome problems in organizational interactions. Since they are mostly personal in nature, development goals are more difficult to set with respect to performance goals.

If at any time the superior has any feeling that an individual's limitations stand clearly in the way of the unit's goal achievement, it should be communicated to the individual, thus providing him with the need to change.

Personal development objectives ought to be a basic issue in the MBO program if there is a need for them. Very little value, if any, will be obtained if they are set only to meet formal program requirements instead of being problem based.

Personal development should aim to overcome deficiencies related to performance by first pinpointing a problem area, and then assessing the causes of the problem.

Tosi, Rizzo, and Carroll (1970) group problem areas under three main concepts: improving interpersonal relations, improving current skills, or preparing for advancement.

Having been agreed upon that a problem exists, causes should be sought jointly by both the superior and the subordinate. The possible causes of problems may be grouped under three general categories, as stated by the same authors. These categories are: procedures and structure related to the organization itself, others with whom an individual must work, and finally the person himself.

There is obviously no way to determine if activities directed at personal improvement will actually improve the current or future performance of the individual, hence managerial judgement is of great importance in determining activities of value in future work assignments.

The Action Plan. The performance or action plan refers to the means of accomplishing an objective, which are mainly alternatives leading to the desired end. Although the action plan may consist of brief statements, it should summarize what is to be done in an exclusive manner; which leads to the suggestion of breaking down the action plans for complex activities into major subprograms where the best alternative, out of possibly many, should be represented as means of achieving the goal level.

According to Tosi, Rizzo, and Carroll (1970), the benefits and opportunities provided by adequate attention to an action plan are as follows:

1. Aids in search for better, more efficient methods of accomplishing the objective.
2. Provides an opportunity to test the flexibility

and feasibility of accomplishing the objective as stated.

3. Develops a sounder basis to estimate time or cost required, and deadline for accomplishment.
4. Examines the nature and degree of reliance on other people in the organization toward coordination and required support.
5. Uncovers anticipated snags or barriers to accomplishment.
6. Determines resources (manpower, equipment, supplies, facilities) required to accomplish the objective.
7. Facilitates control if the performance is well specified and agreed upon; reporting need occur only when problems arise in implementing. This is a form of planning ahead; when plans are sufficiently complete, only deviations from it need to be communicated.
8. Identifies areas in which the superior can provide support and assistance.
9. Facilitates the delegation process.

Coordinating requirements and contingencies need to be determined since successful achievement or failure of an objective may depend upon the contribution and performance of other departments or individuals. While some contingencies apply to all objectives and need not be documented on each, like delays in the availability of resources, equipment

failures, delayed information or approval, and the like, other contingencies, specific to the objective should be discussed. Inadequate authority of the subordinate, lack of policy covering aspects of the objective, possible failure to gain others' cooperation, and similar contingencies could be illustrative examples.

Measurement and Appraisal. MBO, by nature, carries along with it most of the known difficulties and complications of measurement and appraisal processes. Due to its emphasis on performance, it is potentially more effective than a judgement based on personality traits or criteria presumed as related to performance. However, this potential can not be utilized unless measurement and appraisal are reasonably valid, reliable, objective, and equitable.

According to Tosi, Rizzo and Carroll (1970), performance evaluations should rarely be based only on whether or not the objective was accomplished, or on the sheer number accomplished, but should take into consideration:

1. quantitative aspects
2. qualitative aspects
3. deadline considerations
4. proper allocation of time to given objectives
5. type and difficulty of objectives
6. creativity in overcoming obstacles
7. additional objectives suggested or undertaken
8. efficient use of resources

9. use of good management practices in accomplishing objectives
10. coordinative and cooperative behavior; avoidance of conflict inducing or unethical conduct, etc.

Hence, evaluation and measurement require considering both means and ends, being concerned with both the objective itself, and the means to its achievement. Evaluation has evident links to action plans, as well as to end states, and unless conscious attention is directed to these links, an important opportunity to communicate expectations, feedback performance results, and set effective goals may be lost.

As for the measurement problem, it often reduces to finding the appropriate, agreed-upon criterion for each objective, realizing that some will apply to many situations while others are unique to a single objective.

Apart from the distinction made between performance and personal development objectives, Tossi, Rizzo, and Carroll (1970), by classifying objectives into routine and special project objectives, have stated that classification permits important refinements in evaluation and control.

Routine objectives are a core part of the job description and are basic to the job. The most appropriate method for evaluating if an individual has achieved them is first to insure his awareness of these activities and required levels of achievement. While these criteria are being specified, acceptable tolerance limits should also be developed. Measurement of the routine ought to be a major

part of the objectives process, being of most concern at times when performance falls outside acceptable levels. In other words, evaluation of routine goals is by exception, upon standards not being met. However, it should be noted that managing by exception requires clear standards from which exceptions can be specified in advance. Generally, routine job responsibilities or goals are expressed as job standards or other hard performance measures which makes it essential to avoid using only quantitative criteria in measurement, since this may lead to substantial distortions of behavior in the long run.

With respect to the essentially routine, problem-solving, special project, or creative objectives are more difficult to quantify since innovation and invention are required in their very formulation. Results in these areas can not be measured adequately or directly in most cases, however it usually is possible to judge if an activity has been performed approximately, and furthermore, constraints may be set upon the activities to yield a better judgement. Thus, concern should be present in not only whether or not events have occurred, but also in their completion within some tolerance limit such as target dates, budget constraints, or a quality assessment by the manager.

The presence of these conditions makes it possible to establish review points, thus focusing attention to the outcomes of activities as they occur, and deliberations on these outcomes can serve to re-evaluate both objectives and



means; allowing room for changes and assuring both flexibility and control.

Tosi, Rizzo, and Carroll (1970) have further stated that deadlines and budget constraints need not be strictly specified in all cases and mostly depends on:

- a. the importance of the objective
- b. the ability to determine the time or costs required in performance
- c. whether or not written plans or objectives of other people require coordinated completion dates
- d. the amount of time and money the subordinate will spend on the particular objective under discussion
- e. the predictability of problems or barriers to accomplishment

The discussion of these constraints allows greater understanding between superiors and subordinates; therefore establishing their use in evaluation. Deadlines and costs should be viewed as being negotiable and should be reasonably and rationally arrived at whenever possible. In other words deadlines ought not be set merely to insure that action is initiated.

The fundamental requirement for MBO, which is critical to achieve meaningful changes in behavior, is the development and use of sound criteria for evaluation, appraisal, and feedback.

Soft criteria, which involve not only a particular level of achievement, but the determination of whether an

event or condition has or has not occurred, are a vital and fundamental part of MBO without which the approach can not be well implemented.

## 2.2. The Effectiveness of MBO as a Management Practice

Beck and Hillmar (1972) have compiled a list of thirty-five reasons as to why MBO is an effective practice. The items in the list have been condensed from multiple sources, including training seminars, and consulting with organizations implementing the concept.

The items in the list run as follows:

1. Work expectations are better understood because objectives are visible to all concerned.
2. The "political atmosphere" tends to be minimized because there is no need to try to give the boss what he wants or to attempt to please him no matter what he seems to want.
3. Communications are improved because objectives provide a common framework within which to discuss plans, progress, and performance.
4. Boss-subordinate relationships during performance reviews are improved because the uncomfortable feeling is removed. MBO enables the two men in a performance review to have more nearly equal roles.

5. Feedback is provided. The subordinate knows what he is doing.
6. The boss's suggestions are not resented if they actually do promise to be a better way to get the desired results.
7. Coaching by the boss becomes more meaningful. Development occurs on the job because the subordinate is able to get assistance when he needs it.
8. Teamwork is facilitated by identifying common objectives.
9. Relationships are improved between superiors and subordinates and between peers in different functions.
10. Innovation in problem-solving is encouraged and expected.
11. Alternative ways of achieving objectives are developed.
12. Opportunities for individual creativeness on how to get the job done are opened up.
13. Employee commitment to improved performance increases in successive periods.
14. Participation in decision making occurs by managers at all levels.
15. Challenges are provided to both supervisors and subordinates.
16. Managers have more freedom and are more at ease

because the boss is not peering over their shoulders.

17. Achievement of employees' personal goals is part of the system.
18. Planning is more precise and useful.
19. All employees try to think of everything that they will need to achieve their objectives and to assure themselves that these resources will be available when needed.
20. Priorities can be set up for each problem.
21. Confusion that normally occurs with a new boss is minimized.
22. The system becomes a standard process of planning, scheduling, review, and documentation to insure focus on results.
23. Control over people shifts to control over operations.
24. Balanced management is provided.
25. Delegation of authority and sharing of responsibility are required.
26. Managerial time and efforts are used more economically by defining a specific manageable area for concern.
27. When something goes wrong, the difficulty can be spotted quickly, before it becomes critical.
28. Control is strengthened because it tends to be inner control by the responsible manager rather

than external control by his superiors.

29. Performance of subordinates is controlled by establishing specific, as well as timely, measurement of results.
30. Opinions and abilities of subordinates are better utilized.
31. Management potential of subordinates is developed more fully.
32. The acquisition of knowledge and experience are facilitated.
33. Salary administration is improved by providing a better basis for wage increases.
34. Assessing of promotability is helped by identifying an individual's potential for it.
35. The "problem" person who can not or will not contribute is revealed so that timely corrective action can be taken.

Reddin (1971) has categorized the benefits of effective MBO as follows:

Subordinate Benefits. The concept provides the subordinates with knowledge of what is expected of them, performance measurement, clarified authority and responsibility, and increased job satisfaction.

Superior Benefits. All of the four benefits for subordinates naturally benefit superiors as well. In addition, however, MBO provides the superiors with four special benefits. These are better motivation of subordinates

strengthened relationships, coaching framework, and elimination of weak appraisal methods.

Organization Benefits. It is a conclusion, by logic, that benefits provided by MBO to both superiors and subordinates should also benefit the organization. However, there are some benefits that apply primarily to the organization as a whole. These are: inducing managerial effectiveness as a central value, focusing managerial effort, facilitating co-ordinated effort, providing objective reward criteria, identifying advancement potential, identifying development needs, and facilitating change.

The concepts streaming from MBO are merely a logical extension of the normal management functions of planning and controlling activities. In essence, managers plan for what they desire and then use these plans as their major mechanism for controlling progress toward the attainment of their goals.

The difference brought about by MBO, as stated by organizations, lies in the rigor with which the planning and control is carried out. This rigorous planning and control, according to managers, is what gives way to desirable outcomes and benefits from the MBO effort, as well as some of the problems they encounter along the way, which according to some authors like Ford (1979), are claimed to be problems burdensome enough to justify MBO as an idea whose time has gone.

### 2.3. Selected Research on MBO Programs

There have been only a few studies carried out on actual MBO programs in organizations. Seven of the most important ones will be summarized here. The General Electric research is perhaps the most widely known. The Purex studies aim to relate hard production criteria to MBO. The Mendleson research takes a look at the superior-subordinate dyad. The English studies and the Hospital study put forward some case studies of the adoption of an MBO program. The Kentucky studies examine deviations in the method of implementing the MBO approach in an organization. The Black and Decker research attempts to reveal the perceived image of MBO by employees and their satisfaction levels.

The General Electric Studies. In their frequently cited article "Split Roles in Performance Appraisal" Meyer, Kay and French (1965) have summarized the major findings from a number of studies conducted at the General Electric Company. The research focused primarily on a study of alternative methods of performing the appraisal interview and then on the effects of a new MBO program adopted by some of the managers in the organization.

The first research study was conducted prior to the company's decision to split the traditional company appraisal interview into two different sessions. The former focused on appraising past performance and taking some action with

respect to the individual's salary, while the latter interview, conducted two weeks later, focused on performance improvement. For the second interview, the authors formed an experimental condition involving ninety-two subordinates who had no subordinates of their own, treated in one of two ways. One half of the appraisees were asked to prepare for discussing a set of goals for improving job performance, and the superiors of these appraisees were instructed to allow the latter to exert as much influence as possible on the formulation of the final list of job goals. The other half of the appraisees discussed with their superiors a list of job goals developed by the boss, and over whose final form the superior exerted more influence than the subordinate. All appraisees were studied before and after the performance improvement session and again a few months later with interviews and questionnaires. The following findings emerged from this study:

1. Greater amounts of criticism and the high level of threat thus created were associated with more defensive behavior on the part of the appraisees and with lower subsequent performance for those appraisees lower in self-esteem.

2. Appraisees who had more influence in setting goals had more favorable attitudes and achieved a higher percentage of their improvement goals with respect to those with less influence in setting goals. However, appraisees who had been traditionally accustomed to low participation in their



relationship with their superior did not perform better under high participation in conditions of goal-setting.

3. Goal setting itself was more important than subordinate participation in its effects on improved performance. Almost 65 percent of the identified performance deficiencies that were translated into specific work goals resulted in improvements, in regard to only 27 percent of the identified performance deficiencies that were not translated into specific goals showed improvement.

Meyer, Kay, and French (1965) used the above findings as guidelines in developing a program called "Work Planning and Review" which is a form of MBO.

In WPR discussion, the managerial subordinates do not deal in generalities, but rather consider specific objectively defined work goals and establish a yardstick for measuring performance. These goals stem from broader departmental objectives and are defined in relation to the individual's position in the departments.

Two groups of appraisees were then studied; one which used WPR, the other which operated under a slightly modified version of the traditional performance appraisal method used in the organization. Those appraisees operating under the old appraisal method showed no change in the areas measured.

The WPR group, however, expressed significantly more favorable attitudes on almost all questionnaire items. Most specific of all, their attitudes changed in a favorable direction over the year that they participated in the new WPR

program with regard to the following areas:

1. Amount of help the manager was giving them in improving performance on the job.
2. Degree to which the manager was receptive to new ideas and suggestions.
3. Ability of the manager in planning.
4. Extent to which the manager made use of their experience and abilities.
5. Degree to which they felt the goals they were shooting for were what they should be.
6. Extent to which they received help from the manager in planning for future job opportunities.
7. Value of the performance discussions they had with their managers.

Furthermore, the authors concluded that the members of the WPR group were much more likely to have taken specific actions in order to improve performance than those operating within a traditional performance appraisal approach.

The University of Kentucky Studies. A study of the impact of the introduction of an MBO program in two organizations was made by Ivancevich, Donnelly, and Lyon (1970). A questionnaire measuring the degree of satisfaction of certain needs, such as self-actualization, autonomy, esteem, social needs, and security; both before and after an MBO program was introduced by the personnel department in one company and in the other by top level managers. More improvement in need-satisfaction scores were observed in the

organization in which top-level managers were actively involved in the implementation program, and the highest improvement in need-satisfaction scores was among their subordinates in middle management. There appeared to be greater satisfaction in security needs than in the other need groups. More reviews of performance during the year were also observed in this organization.

Interviews were also carried out in the study to identify managerial perceptions of the primary problems associated with the new MBO program. The lower-level managers in one organization indicated that they were not actually involved in the MBO program, whereas in the other organization they complained most frequently about the amount of paper required by the program and about the difficulty of setting proper goals for their jobs.

The Purex Studies. Two important studies were reported by Raia (1965) who dealt with examining the impact of a program called "Goals and Controls", a variant of MBO. After a goal setting program was initiated, questionnaires were obtained from 112 managers.

As of the end of the first year of Goals and Controls, productivity had increased, managers were more aware of the firms goals, and specific goals had been set in more areas with respect to the previous years. Productivity was decreasing at the rate of 0.4 percent per month prior to the program, which reversed to an increasing rate of 0.3 percent per month. Raia's conclusion was that a contribution of the

program in the area of performance appraisal had been significant. There was unanimous agreement among the line managers in the department signifying increase in productivity, particularly among plant managers. The Goals and Controls had simplified the evaluation of the individual's performance. Better planning of resource utilization, pinpointing of problem areas, and improved communications and mutual understanding were among other advantages cited.

In pointing out the problems, Raia felt that the company philosophy of the goal-oriented system was not accepted or understood by the individuals who were using it. Participation, especially at lower levels, was limited, and because of the large amount of paper work involved, managers believed the program to be a nuisance.

A follow-up study of the same program sheds additional light on the goal setting program and in general supports the findings of the first study. Raia (1966) surveyed the responses of 74 managers and analyzed data related to production. In addition to improved managerial planning and control, the level of goal attainment increased and there were continuing increases in productivity. However, due to the seemingly overemphasis on production, or measurable goals, some managers felt that the program was easy to beat. Some of the participants, upon re-evaluating their initial feeling about appraisal, felt that the program did not provide adequate incentives to improve performance. The

managers had trouble in linking the goal setting program to the organization's reward system.

The Mendleson Study. Mendleson (1967) started off with the idea to evaluate the relationship between goal setting techniques and the subordinates' degree of job understanding and rated effectiveness. He constructed an instrument called the "Goal-Setting Index" (GSI) to measure goal setting behavior. A number of specialists or authorities on MBO were consulted to evaluate the extent to which a set of items described goal setting behavior, and keeping only those items on which there was satisfactory agreement, Mendleson devised the GSI.

After administering the GSI to 25 superior-subordinate pairs, in eight companies, Mendleson's basic conclusions were as follows:

1. There was high agreement among the specialists and experts in their description of goal setting behavior.
2. A significant relationship did not exist between the extent of goal setting in dyad and the subordinates' job.
3. There was no observed relationship between goal setting behavior and performance rating.
4. A positive relationship was evident between goal setting behavior and the subordinates' promotability rating.

The results above seem to point out that goal setting techniques, merely by themselves, do not necessarily produce a desired outcome. However, Mendleson draws attention to the fact that his conclusions should be considered in light of the possible limitations of his measurement instrument.

The English Case Studies. British experience with MBO has been reported in several case studies.

In one case study, reported by Preston (1968), an MBO plan was introduced into the firm primarily as a better approach for appraising and helping subordinates to develop their abilities, rather than as being a planning approach. The company faced some initial resistance from many managers to having responsibility for their subordinates' development, along with the fact that objectives at lower levels could not properly be established unless organizational objectives were communicated along with company policy to the lower levels. Besides reported cash saving in several areas, a feeling also developed that MBO helped management to identify certain problems in the organization and also improved the overall developmental climate.

Wickens (1968) has reported on a case study of an English company in which the MBO program was introduced by a management consultant, but was later discontinued because it did not live up to expectations. A number of factors seemed to be responsible for the failure. First, conflicting objectives were established and there was no organizational method for eliminating such conflicts. Another difficulty was

created by a rapidly changing market situation, which changed the priority among objectives and solutions sought to problems. However, probably the most important cause for giving up the program was the fact that it had never been well integrated with other organizational programs nor fully institutionalized.

A Hospital Study. Sloan and Schrieber (1971) introduced in a hospital a program that involved teaching hospital managers how to use the MBO approach, by means of formal classroom training and informal discussions with individual managers. Interviews were held with the participants in the program both before and after the training effort.

The study revealed a number of different findings. Managers were carrying out the performance and review sessions differently than before the MBO training. They appeared to be more concerned about their subordinates, they improved their attempts to clarify job objectives and standards of performance, they were open to suggestions from subordinates, and they were seemingly more perceptive about their own limitations and those of their subordinates.

The participating managers stated that the major advantage of the MBO approach was improved planning and organization of work. The second most frequently mentioned benefit was the clarification of mission, goals, and responsibilities. As for the drawbacks, time consumed during the completion of formal requirements ranked first. This was

considered by the authors to be due to inexperience, which would diminish in time. In spite of the complaints, the post training interviews also pointed out that most managers felt the MBO program was worth its cost and would be beneficial in the future. They also felt that greater top management support could lead to much better results.

The Black and Decker Studies. Carroll and Tosi (1968) conducted an intensive research study on MBO in Black and Decker, a large national manufacturing firm with a reputation for being progressive and innovative. The research was conducted in two phases; the first one being an interview study, in which a sample of fifty managers, drawn from various levels and functional areas in the company, were asked to answer a set of detailed questions about their experience with the MBO process. The aim of the interview study was to obtain general reactions and to identify the critical aspects of the process in order to study them in more depth in a second phase, a questionnaire study.

The interview phase yielded the fact that managers saw some positive aspects of MBO but were not possibly aware of all the benefits unless significant efforts were made to acquaint them with such advantages. One other commonly perceived problem for the approach was that it was not being used to its full potential. In addition, the study indicated that, if the paper-work problem were reduced, managers would be able to perceive MBO as having no problems.



The importance of higher-level management's commitment to the MBO program was shown by the fact that the most common suggestions for improving the program were that more review of performance be provided, as it relates to goals, that goals be updated at times of conditional changes and that higher-level goals known to lower-level personnel. The greatest advantage of MBO, as the manager saw it, was that it provided them with information on performance expectations, thus reducing role ambiguity. The most important reason for its use as perceived by the managers was to link evaluation to performance. As for suggestions to improvement, the most common one was that review and feedback be made a consistent part of the program. Factors such as the organizational level and functional level, were found to be related to influence levels.

Main problems with MBO lie not in the basic characteristics of the approach itself, but in the way that it is used by individual organizations and managers with those organizations. The authors stress the importance of organizational commitment to MBO, and conclude that in many respects MBO should be tailored to the individual and his position rather than being presented as a single, defined approach for all the managers.

#### 2.4. An Overview of Previous Research

It is evident that MBO is used differently<sup>9</sup> by organizations. Some stress the use of MBO as basically a managerial planning approach, whereas most organizations seem to look at the concept as primarily a superior method of evaluating performance and conducting performance-appraisal reviews with managers. The two various approaches stem from the different emphasis given to MBO by Drucker and Mc Gregor, who popularized the MBO concept.

Research relevant to certain aspects of the MBO approach, such as goal setting, feedback on performance, and participation support the idea that MBO should result in higher levels of performance than those of management approaches that do not involve the establishment of performance goals, the provision of feedback relevant to performance as it relates to such goals, and subordinate participation in the setting of such goals. The evidence suggests that the goal setting process itself would be especially critical to the success of an MBO program, and key factors in setting goals would be their difficulty and specificity or clarity.

Research on organizational MBO programs reveals that the adoption of this approach can improve managerial performance, managerial attitudes, and organizational planning. Furthermore, it indicates that MBO programs require

considerable time and effort expenditures for successful adoption, and unless they are given adequate support and attention and are well integrated into the organization, they will fail or not live up to expectations. Anyhow, research on organizational MBO programs has provided few practical guides for actually carrying out the goal setting and performance review aspects of the MBO process.

This study sets off with the intention to take a look at MBO practices being conducted in the banking sector, which has been an area untouched by previous research. Banks, without a doubt being among the most basic institutions of a society, are indeed worth examining in this respect; in an attempt to relate the current situation in these organizations to the findings of previous research conducted in other sectors.

### III. THE RESEARCH METHODOLOGY

#### 3.1. Research Design

##### 3.1.1. Research Objectives

MBO has entered the banking sector of Turkey with the participation of foreign banks in the market, and has recently started to find its way in to domestic banks too. Although currently there are a few practices taking place in the real sense, the future of the concept looks promising as an increasing number of banks are considering the philosophy as an effective management discipline that would be worth implementing.

The objective of this research is to examine the present MBO practices taking place in the banking sector, the image of the concept as viewed from the eyes of the managers employed in this domain, and their satisfaction levels associated with the programs and practices that are currently in use.

##### 3.1.2. Sampling Procedure

Sample Size. The initial sample consisted of the 44 domestic and foreign banks giving service in the sector. It would be beneficial to note hereby that what is meant by a

Domestic bank is one having a top management of domestic origin, and a Foreign bank is one having a top management of foreign origin. The personnel departments of these banks were called by phone to determine whether they did or did not have an MBO program in practice.

Out of the two domestic and eight foreign banks that did have such a program, only the ones having more than one branch and employing more than 40 percent of their personnel under this program were chosen to form the final sample. The underlying reason for such criteria was to provide significant data in terms of widespread practice, accountability and assurance as to the coverage of basic concepts forming the mainframe of this study.

The resultant sample consisted of two foreign and two domestic banks. The managers in charge of the MBO programs in these organizations were appointed for an interview. Among them, there were two personnel managers, one training, and one division manager. Following the interviews, each manager was asked to distribute ten questionnaires among the middle level managers in his/her organization. However, not all of the forms were returned due to confidential restrictions imposed by top management policies, hence resulting in a usable total of 25 questionnaires, which might have carried some bias due to the distribution choices of the managers in charge.

Table 3.1.2.1. illustrates the breakdown of the sample for the Interview and Questionnaire studies.

TABLE 3.1.2.1. SAMPLE BREAKDOWN

Name of Bank	Origin	Interview (*)	Questionnaire (**)
Citibank	Foreign	Personnel mngr	7
Iktisat Bank	Domestic	Training mngr	4
Interbank	Domestic	Personnel mngr	9
Koc-Amerikan	Foreign	Division mngr	5

\* position of manager interviewed

\*\* number of managers responding

### 3.1.3. Data Collection Method and Instruments

Each bank in the sample was studied in two phases. The first part was a survey conducted with the manager in charge of the MBO program, and the second one focused on middle level managers employed in the headquarters.

Interview with Manager in Charge. This phase aimed at getting the views and opinions of managers in charge of the MBO programs on the general framework of the practice itself, its advantages, drawbacks, and suggested methods for improvement via the interview method. Some questions were specifically directed at the practice was being implemented in the organization, while others were open-ended, with the intention of bringing forward some personal thoughts and remarks (See Appendix A for the Interview Form). This part of the interview was based on an oral question-answer basis,

whereas the second part consisted of a structured questionnaire given to the interviewed manager, on which he/she was asked to tick the boxes corresponding to the statements he/she agreed with; in an attempt to measure opinions related to the use of the MBO technique (See Appendix A for the structured questionnaire form).

Questionnaire Survey with Middle Level Managers. The Questionnaire Study carried the intention of displaying the portrait of the MBO program, as that perceived by managers working in the organization; namely their overall satisfaction, their participation in the goal setting process, and the amount of feedback they received, along with the interaction among these variables.

The first eleven questions of the Questionnaire possessed scalar responses, and the remaining were of multiple choice type with the exception of number 18, which was a ranking question, and number 24, which was a demographic one (See Appendix B for the Questionnaire Form).

### 3.2. Research Findings

The two phases of the study are taken one by one, and are examined individually, in order to give a better insight on the concepts included within their scopes.

### 3.2.1. Interview Study Results

The managers in charge of the MBO programs responded to the interview questions orally, taking into consideration the situations and cases related to the MBO programs in their own organization. For the sake of convenience, these responses were grouped under specific subject titles; namely Initial Stages, Goal Setting, Feedback, Appraisal, Complaints and Troublespots, and The Future.

Initial Stages. Like every other program, the MBO programs too started as a result of observed needs, and with various expectations as to their effect on the organizational structures of the banks covered in this study.

As mentioned before, the two foreign banks had brought along the approach with them upon coming to Turkey, thus their expectations were to properly apply the programs designed in their New York headquarters, and enjoy the benefits of increased motivation and better performance. Citibank started its activities as of the year 1976, and Koc-Amerikan (American Express as it was called then) entered the market as of the year 1982. No pilot studies were conducted at either bank and the MBO programs were integral frameworks of their operations starting from the very first day of their activities. Meanwhile, no consultancy was taken from outside the organizations. In Citibank, the Personnel Manager was held responsible for running and controlling the MBO program, whereas in Koc-Amerikan the General Manager was assigned to perform the same functions. No studies have been conducted in



either bank so far, in an attempt to measure the effective points, or to reveal possible areas of complaint and dissatisfaction related with their MBO practices. The programs in both banks have not been interrupted or halted up to date for one reason or another, they are presently being practiced in their original forms.

Of the two domestic banks that fall within the scope of this study, Interbank initiated its MBO program in mid 1986. "We felt the need for an effective appraisal system, which would also motivate and stretch the performance limits of our young and dynamic personnel, who were ready to accept such a concept" were the words of the organization's Personnel Manager. Two pilot studies, each lasting three months, were conducted among the personnel, in which forms containing information about MBO were distributed, discussed, and commented upon. Later, role-playing sessions were held to give a better insight on the concept. Including this six month orientation, it was not before eight months that the practice was integrated fully into the activities of the bank. During this period, the bank did not employ any consultants from outside the organization. No modification has been made up to this extent in the original framework of the program, and no study has been conducted to identify effective points and complaint areas of the practice.

Iktisat Bank, on the other hand, had started using a system similar to MBO in its Credit Marketing division as of

the end of 1984; a result of the encouragement coming from its new owner, who overtook the bank at that time. However, it wasn't before the beginning of 1987 that the bank, with the suggestion of its Training Manager, started its attempts to spread the practice throughout all of its operations. Two seminars, lasting for about a week, were given to the personnel, in which a theory transfer was accomplished. The only outside consultancy was that taken from the administrative sciences department of a university, during the training efforts. The Credit Marketing division was the point of initiation, and according to the Training Manager of the bank, the practice is to be applied throughout the whole organization by the end of the year 1988. No change or modification has taken place in the program so far, and no study aiming at identifying effectiveness increases or complaint areas has been conducted either.

Goal Setting. The goal setting process, in light of the managers' expressions did not show much variation among the banks covered by this survey. The objectives were always open to discussion in all of the organizations, however there was an evident force exerted from top, down on to the bottom in order to impose and assure organizational goals, which was pointed out as a necessity by the managers in all of the interviews.

There was no specific policy regarding the amount of participation allowed on behalf of the subordinates during the goal setting process, and it was stated by all managers

that this phenomena was subject to variation between each superior-subordinate pair; showing different amounts and levels, depending on the characteristics of the individuals. Anyhow, despite the openness of the system in all of the four banks, the managers were not hesitant to point out that the boss had the final word.

Citibank employs a program that categorizes its personnel into two: officers, and non-officers, where goals are set only for the former. Thus only officers are employed under the framework of the MBO program. The remaining three banks, according to the statements of the managers interviewed, have seen the possibility of setting objectives for every job position likely. Although this may be the case, the managers also stated that trying to force objectives into every position usually ended up in "artificial" goals.

Our manager's statement, concerning the difficulty in setting goals within an organization participating in the banking sector of Turkey, was that of experiencing the necessity to readjust the objectives in accordance with the relatively frequent changing government policies and regulations concerning the activities of financial organizations. The problem was stated to be true especially for finance based objectives; forming the very core of bank operations.

Feedback. According to the managers' statements, none of the banks had official channels or forms of feedback which were used at predetermined frequencies. The feedback process

was left to the initiative of the superior in all of the banks, who orally discussed the performance and accomplishments of his/her subordinates on an individual basis, as often as he/she may have seen the necessity.

The managers further claimed that the openness of the concept provided an environment in which people could communicate well enough, thus making the use of an official channel unnecessary.

Appraisal. In light of the statements put forward by the managers, the appraisal methods showed distinct variations among the four banks considered in this study.

Citibank displayed a portrait of having the most competitive and strict appraisal system. The officer type of employees, for whom objectives have been set, are reported on their performance during mid year. The goals and developments are written on a form after a face to face discussion between the superior-subordinate pair, and later on, it is submitted to the next higher level for approval. As a result, they are rated according to a force-ranking system, where there is always a "top 10%", "good 20%", "middle 60%", and "bottom 10%" distribution. The interpretation of these groups is that the first group always, the second group frequently, the third group sometimes, and the last group never reached the desired performance level.

In Koc-Amerikan, all personnel are evaluated semi-annually on an excellent-good-bad basis, and this evaluation is transformed into pay increase or decrease via an index

defined for this purpose. Due to this indirect reflection of performance to pay, the Division Manager of the bank stated that the employees had a hard time trying to figure out how well or poor they had done in a term by looking at their pay bills. A comparison with other banks reveals the fact that only in Koc-Amerikan, decisions concerning pay increases and promotions were reported at the same time as the objective development forms were filled in. However, though this is not the case in the remaining banks, their managers admitted that in some way or another, the two were related, and the latter was reflected into the former.

Interbank employs an MBO program in which the appraisal process consists of evaluations carried out in 45 different areas for each individual. This evaluation occurs at the end of the year, following quarterly meetings held between superior-subordinate pairs, in which performance accomplishments, areas of weakness, and special projects are discussed. The annual evaluation score of an individual is the arithmetic mean of the scores received in the 45 different areas taken into consideration. The scoring in each in each area ranges from a low of 1 (one) to a high of 5 (five), which is determined by the general opinion of the superior who rates his subordinates. A complaining remark made at this point by the Personnel Manager was the difficulty they experienced in trying to convince superiors that scores below 3 (three) too could be given, if their subordinates had deserved it, and further added that scores

of 2 (two) or 1 (one) were hardly visible in the evaluations due to the humanistic behavior of the superiors.

Iktisat Bank, carries out the appraisal process through a semi-confidential manner, in which objective developments are discussed quarterly among superior-subordinate pairs, and a commission evaluates the performance of the individuals annually, without notifying them. According to the Training Manager, since no immediate reward or punishment is visible this way, the reflection of performance on to pay and promotion decisions has caused a certain amount of uneasiness among the personnel..

Complaints and Troublespots. Although at a minor degree, all managers put forward that managements did not favor the paper work brought about by the MBO practices.

One other source of complaint faced by all of the managers was the difficulty encountered in their organizations, which was due to the fact that people had a hard time telling each other their weaknesses and pointing out their deficiencies during appraisal sessions. "It was a bit too much to expect a smile from someone whom you had put right down low the day before" were the words of a manager expressing the problems she faced. She further added that some people would even cry upon hearing such criticism, and wouldn't come to work for a certain period of time.

Another manager complained that the performance stretch policy of their program led to a decrease in motivation, whereas they had expected just the opposite.

One other complaint by the same manager was that her personnel did not easily accept the organizational constraints brought upon them, following the switch from their previous program to the MBO practice.

Finally, a complaint shared by all managers was the fact that the frequently changing environmental factors of the market such as deposit rates, interest rates, stoppage amounts and fund deductions, seriously threatened the reality of objectives, especially ones concerning the Credit Marketing divisions.

Apart from the ones stated here, the managers had no major complaints about the MBO approach, and further added that they were determined to continue their programs in the years ahead.

The Future. Confronted with no real problems as to cause any deviations from their original, imported programs, the managers of Citibank and Koc-Amerikan stated that their practices were satisfactory enough to be carried out into future years, without any changes being visible in the horizon. When asked whether they expected any further benefits from their MBO programs, in addition to the ones already provided, they both replied as having no expectations.

As for the domestic banks, they are relatively new with their experiences in MBO. Interbank, seemingly the pioneer among them, is quite satisfied with its program, according to its Personnel Manager. The only major addition

to our program will be the carrier planning, which is to be put into effect as of the end of this summer", she further added, and expressed her future expectations to be the complete adaptation of the personnel to the philosophy itself, the ideal functioning of the appraisal process, and a further increase in motivation.

Iktisat Bank, the second committed domestic practitioner of the MBO approach, has made a "healthy start", in the words of its Training Manager, and although making no structural changes in the program, the bank is planning to spread the practice throughout its entire organizational frame within a period of one year, thus being able to enjoy the increase in motivation, improvement in superior-subordinate relations, and specification in work approaches.

Managerial Reactions to MBO. The views of the managers regarding the philosophy, rationale, and purpose of the practice were in strict accordance; that is all four united on the rationales of linking evaluation to performance, aiding managers in planning, motivating managers, increasing boss-subordinate interaction and feedback, developing management potential, linking organization to departmental objectives, letting the managers know what their jobs are and what are expected of them, giving management information about things going on at lower levels. The rationale of the approach as being a management club to pressure performance was accepted by three managers, whereas one strictly rejected it.



Table 3.2.1.1. presents a summary of these responses.

TABLE 3.2.1.1. PHILOSOPHY AND RATIONALE OF MBO

Rationale	n (*)	%
1. Link evaluation to performance.	4	100
2. Aid manager in planning.	4	100
3. Motivate managers.	4	100
4. Increase boss-subordinate interaction and feedback.	4	100
5. Develop management potential.	4	100
6. Link organization objectives to departmental objectives.	4	100
7. Managers know what their job is and what is expected of them.	4	100
8. Give management information about what is going on at lower levels.	4	100
9. Management club to pressure performance.	3	75

\* n=4 managers

Advantages of the Practice. The views of the managers concerning the advantages of the approach were again in unison. All four agreed upon the advantages of MBO that it let the individual know what is expected of him, forced planning and setting target dues, imposed boss subordinate feedback and communication, increased awareness of organization goals, documented goals relating evaluation to

performance, focused on self-improvement, let the individual know where he stood, coordinated activity toward organization objectives, applied subtle pressure and motivation to perform better, improved performance if used. The managers found the approach extremely advantageous and none viewed it as being merely a general help with no outstanding benefits.

Table 3.2.1.2. provides a summary of the results.

TABLE 3.2.1.2. ADVANTAGES OF MBO

Advantage	n (*)	%
1. The individual knows what is expected of him.	4	100
2. Forces planning and setting target dues.	4	100
3. Forces boss-subordinate feedback and communication.	4	100
4. Increases awareness of organization goals.	4	100
5. Documents goals relating evaluation to performance.	4	100
6. Focuses on self-improvement.	4	100
7. The individual knows where he is standing.	4	100
8. Coordinates activity toward organization objectives.	4	100
9. Subtle pressure and motivation to perform better.	4	100
10. Improves performance if used.	4	100
11. Only a general help.	-	-

12. No advantages.

\* n=4 managers

Disadvantages of MBO. The opinions of the managers on the problems and disadvantages associated with MBO were in a way to suggest that they actually viewed the approach as having no real problems. The need to consider different goals for different jobs and levels was one item that received total agreement as to being a problem. Not being used to the full potential, never getting good feedback, and lack of information about personal characteristics during appraisal were problems referenced only once, with the remaining not being mentioned at all.

Table 3.2.1.3. summarizes the responses.

TABLE 3.2.1.3. PROBLEMS AND DISADVANTAGES OF MBO

Problem	n (*)	%
1. Excessive formal requirements.	-	-
2. Not used to full potential.	1	25
3. Need to consider different goals for different jobs and levels.	4	100
4. Never get good feedback.	1	25
5. I was never really involved in the program.	-	-
6. It is undesirable to commit oneself to objectives and goals formally.	-	-

7. Lack of information about personal characteristics.	1	25
8. No real problems.	4	100

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\* n=4 managers

Suggestions for Improvement. The suggestions put forward by the managers as to the improvement of the program showed some variation in views and opinions. Only one suggestion, that of ensuring review and feedback, received full acceptance from all four managers. The next popular suggestions were that of providing support by top management, developing ways of updating goals as to make changes become notable, and that of including "personal" evaluations in appraisal in addition to the accomplishment of set goals. Suggestions receiving the least acceptance were that of including "normal job requirements", and that of increasing the understanding of the program and the way of setting goals, which were each supported by one manager only.

The opinions are summarized in Table 3.2.1.4.

TABLE 3.2.1.4. SUGGESTIONS FOR IMPROVEMENT

Suggestions	n (*)	%
1. Ensure review and feedback.	4	100
2. Develop a way to update goals so that changes can be noted.	3	75

3. Provide use by top management so that their goals are known at lower levels.	2	50
4. In addition to set goals, include "personal" evaluations too.	3	75
5. Top management should support the program.	3	75
6. Increase the understanding of the program and the way to set goals.	1	25
7. Include "normal" job requirements.	1	25
8. Ensure real participation and involvement at the stage of setting goals.	2	50

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\* n=4 managers

### 3.2.2. Questionnaire Study Results

Replies of the 25 usable questionnaires were grouped under six categories; namely Needs, Objective setting, Feedback, Interest in the MBO program, Performance level, and Satisfaction. These groups represented a system structure, with Needs, Objective setting, Feedback, and Interest being input variables, whereas Performance, and Satisfaction being output variables.

The above groups were analyzed using SLM (Statistical Language for Microcomputers) for any significant correlation among them or a meaningful regression between the output and input variables of the system (See Appendix C for the

composition and mean scores of the variables).

The system analysis consisting of the four input, and two output variables was carried out separately both for domestic and foreign banks. Later on, they were united into one and analyzed there on, as to reflect the combined effect over the sector as a whole.

Domestic Banks. Within the replies of the managers of domestic banks, Needs seemed to be highly positively correlated with Performance ( $r=0.88$ ), Interest ( $r=0.86$ ), Feedback ( $r=0.83$ ), Satisfaction ( $r=0.81$ ), and Objective setting ( $r=0.71$ ).

The Objective setting was also positively correlated with Performance ( $r=0.79$ ), and Feedback ( $r=0.72$ ). Feedback was found to be correlated with Performance ( $r=0.87$ ), Satisfaction ( $r=0.85$ ), and Interest ( $r=0.78$ ).

Table 3.2.2.1. summarizes the findings.

TABLE 3.2.2.1. CORRELATION OF VARIABLES FOR DOMESTIC BANKS

	Needs	Obj.	Feed.	Int.	Perf.	Sat.
Needs	-					
Obj.	0.71 *	-				
Feed.	0.83 *	0.72	-			
Int.	0.86 *	0.67	0.78 *	-		
Perf.	0.88 *	0.79	0.87 *	0.68	-	
Sat.	0.81 *	0.44	0.60	0.85 *	0.65	-

\* significant Pearson correlations at  $p > 0.01$

The regression analysis revealed that Performance ( $F=25.80$ ) variations could be explained quite meaningfully ( $R\text{ square}=0.92$ ) by Needs ( $F=10.67$ ), Feedback ( $F=5.84$ ), and inversely by Interest ( $F=5.38$ ).

Variations in Satisfaction ( $F=11.30$ ) were explained ( $R\text{ square}=0.82$ ) by Needs ( $F=4.26$ ) and Interest ( $F=6.65$ ).

Foreign Banks. Among the managers of the foreign banks, Needs seemed to have a highly positive correlation with Satisfaction ( $r=0.89$ ), Performance ( $r=0.87$ ), Objective setting ( $r=0.79$ ), Feedback ( $r=0.78$ ), and Interest ( $r=0.77$ ).

Objective setting was also highly positively correlated with Feedback ( $r=0.87$ ), Performance ( $r=0.85$ ), Interest ( $r=0.83$ ), and Satisfaction ( $r=0.78$ ).

Feedback was also found to be positively correlated with Interest ( $r=0.86$ ), and Performance ( $r=0.80$ ).

Table 3.2.2.2. summarizes the results.

TABLE 3.2.2.2. CORRELATION OF VARIABLES FOR FOREIGN BANKS

	Needs	Obj.	Feed.	Int.	Perf.	Sat.
Needs	-					
Obj.	0.79 *	-				
Feed.	0.78 *	0.87 *	-			
Int.	0.77 *	0.83 *	0.86 *	-		
Perf.	0.87 *	0.85 *	0.80 *	0.80 *	-	
Sat.	0.89 *	0.78 *	0.69	0.69	0.78 *	-

\* significant Pearson correlations at  $p > 0.01$

It was also found that Performance was positively correlated with Interest ( $r=0.80$ ), and Satisfaction ( $r=0.78$ ).

The regression analysis yielded a result that explained Performance ( $F=12.57$ ) variations by Needs ( $F=4.83$ ) alone; being a relatively meaningful one ( $R\text{ square}=0.84$ ).

Needs ( $F=10.58$ ) were also found to explain ( $R\text{ square}=0.82$ ) variations in Satisfaction ( $F=11.13$ ).

The Sector in General. Within the total sample, Satisfaction was correlated with Needs ( $r=0.78$ ), Interest ( $r=0.67$ ), Performance ( $r=0.54$ ), and Feedback ( $r=0.52$ ). Performance was also found to be highly positively correlated with Needs ( $r=0.80$ ), Feedback ( $r=0.73$ ), Objective setting ( $r=0.72$ ), and Interest ( $r=0.60$ ). Interest also turned out to be correlated with Feedback ( $r=0.74$ ), Needs ( $r=0.73$ ), and Objective setting ( $r=0.63$ ).

Table 3.2.2.3. summarizes the results.

TABLE 3.2.2.3. CORRELATION OF VARIABLES FOR THE WHOLE SAMPLE

	Needs	Obj.	Feed.	Int.	Perf.	Sat.
Needs	-					
Obj.	0.62 *	-				
Feed.	0.70 *	0.68 *	-			
Int.	0.73 *	0.63 *	0.74 *	-		
Perf.	0.80 *	0.72 *	0.73 *	0.60 *	-	
Sat.	0.78 *	0.43	0.52 *	0.67 *	0.54	-

\* significant Pearson correlations at  $p > 0.01$



Furthermore, Needs were correlated with Objective setting ( $r=0.62$ ), and Feedback ( $r=0.70$ ). Feedback was also correlated with Objective setting ( $r=0.68$ ).

As a result of the regression analysis, Needs ( $F=11.48$ ), and Objective setting ( $F=4.72$ ) were meaningfully ( $R\text{ square}=0.75$ ) found to explain the variations in Performance ( $F=17.16$ ). Also, variations in Satisfaction ( $F=10.86$ ) were explained ( $R\text{ square}=0.65$ ) by Needs ( $F=13.32$ ) alone.

### 3.3. Limitations of the Study

The results extracted from this study are limited in range, and should not be taken as generalizations that apply to the various types and variations of MBO programs that currently are, or will be applied in organizations within the banking sector of Turkey.

The sample size itself was a major limitation of this study. Being a fairly new concept among the management circles of the banking sector, MBO hasn't really found its true potential within domestic organizations. Only two banks had been practicing the concept within their operational framework with a significantly high level of relevance to be included in the study. As for the foreign banks that did have MBO programs, those with more than two branches, and a relative significance in terms of operations and personnel, were quite limited; as a matter of fact, only two of them

matched the qualifications.

Data collection, too, posed further constraints. The managers were hesitant to be probed in detail concerning topics they considered to be "confidential", during the course of the interviews; being sensitive especially on topics of appraisal, evaluation, and personnel satisfaction.

Top managements' attitudes were a determining factor in the number of questionnaires returned, since their policies were the limiting element in distributing the forms among their personnel. As a result, approximately 63 percent of the intended sample size was covered by the Questionnaire Study, which might have carried some bias, since the choice of middle-level managers to be included in the study were determined by the managers in charge; acting accordingly with top management policies. However, this bias had to be risked, since data collection would not have been possible otherwise.

Before drawing any inferences from the findings revealed by this research, the limitations of the study, mentioned as above, should be taken into consideration as to avoid unhealthy generalizations on any one of the topics.

#### IV. CONCLUSIONS AND IMPLICATIONS

##### 4.1. Conclusions on Research Findings

The findings of this study clearly point out that there is a strong potential for MBO practices within the banking sector of Turkey. A great majority of foreign banks are already practicing the philosophy and are fond of the way it has worked out for their organizations. Although there are only two domestic banks in the sector, which have MBO programs, this number will seemingly increase, as more and more banks are considering serious thoughts of integrating the approach within their domain of activities.

The MBO concept has brought along motivation, leaps in performance, goal clarity, improved boss-subordinate relationships, and a better adaptation and orientation to organizational goals, as had been the case in previous research.

However, apart from the observed advantages stated above, organizations, especially domestic ones, seemed to experience some difficulties in appraisal. Most managers still have the tendency to view criticism as an undesirable practice, even if justified and based on facts, thus they avoid it whenever possible. This tendency often results in the difficulty of pointing out subordinate weaknesses and deficiencies, which reflects into the appraisal system as an unbalanced and misleading factor. It seems as if a more

effective training on the concept is substantial in order for the managers to accept criticism as a constructive form of feedback, through which better performance can be structured upon.

In general, the satisfaction and performance of managers related to MBO was positively correlated with participation in goal setting as had been found earlier by Meyer, Kay, and French (1965) during the General Electric Studies. Satisfaction and performance were both positively correlated with the interest of the organization towards the program, including top management support, as had been revealed during the Hospital Study of Sloan and Schrieber (1971), and the University of Kentucky Studies by Ivancevich, Donnelly, and Lyon (1970), and the Black and Decker Studies of Tosi, Rizzo, and Carroll (1968). However, the single most determining factor which affected the two output variables of Satisfaction and Performance was the needs of the individual and that of the organization. That is, managers were more inclined to be satisfied, and performed better, if the objectives set for them reflected the true needs, whether they were organizational, or individual in nature. In addition to needs, the managers' performance and satisfaction in domestic banks was related to the interest shown towards the program by the organization and/or the boss, whereas it had no significant effect in foreign banks. This situation may have been due to the fact that foreign banks had brought along their system as a whole, including the MBO programs,

and started employing it from the very first day, whereas domestic banks went through a transition period during the switch to the MBO practices.

Complaints about the amount of paper work involved in the approach were present in all of the four banks, as had been the case in the University of Kentucky studies conducted by Ivancevich, Donnelly, and Lyon (1970), the Purex Studies of Raia (1965-1966), the Hospital Study of Sloan and Schrieber (1971), and the Black and Decker Studies of Tosi, Rizzo, and Carroll (1968).

Ensuring review and feedback, was the single most agreed upon suggestion as for the improvement of the MBO approach by all managers, as had been observed in the Black and Decker Studies of Tosi, Rizzo, and Carroll (1968).

Finally, one other conclusion yielded by the study was the fact that development objectives tended to be centered more around the organization rather than the individual, thus providing a limited horizon to enable self accomplishment and actualization.

#### 4.2. Implications of the Study

Possessing the potential as it does now, the banking sector of turkey seems quite suitable for applications of the MBO approach, and practices of various types are bound to spread among organizations that carry out operations within

this sector.

This study has revealed that the banking sector is not different from other sectors in which previous research has been conducted, and the relations found earlier also apply to this sector, as far as the performance, satisfaction, feedback, and goal setting aspects of the MBO philosophy are concerned.

Taking into consideration the similarity in findings, domestic banks can be expected to enjoy the benefits of the MBO approach. However, serious and longitudinal training efforts will have to be spent in giving insight to the concepts involved in this approach, especially emphasizing the feedback, participation, and appraisal aspects. Role-playing could be suggested as an efficient and educational method for this purpose. Along with the training efforts, the positive interest and encouragement displayed to the program by both the organization and the top management can be expected to function as a vital element in providing greater acceptance and higher satisfaction among the individuals employed within the organization.

One other factor to be considered during the implementation of an MBO program in this sector, would be to design the system as to allow sufficient flexibility, in revising or updating set objectives, upon being confronted with environmental changes; taking into consideration that the climate, in which these organizations carry out their activities, is frequently altered by government policies and

regulations.

Meanwhile, the possible opposition and resistance of worker unions and syndicates, against the appraisal aspect of the MBO approach, may pose some serious problems for banks, with a large number of personnel working under the state of collective-bargaining, if these organizations are to spend serious efforts in integrating the practice within their domain of activities.

Despite the problem spots of the approach, it is likely that the MBO practice will find its way into an appreciable number of organizations in the banking sector of Turkey within the years to come.

## APPENDIX A

## THE INTERVIEW STUDY

- When was the MBO program put into effect?
- Whose idea was it?
- Was any pilot study conducted before initiation?
- How long did it take to fully establish the framework?
- Was any consultancy used from outside the firm?
- What were the expectations from the MBO program?
- Who was in charge of conduct and supervision?
- Was any study conducted in order to compare increases in efficiency with respect to previous practices?
- Was the program interrupted for any reason?
- Is there any training; if so, at what level?
- At what level and up to which extent is there participation?
- Is any study being conducted to reveal possible complaints and areas of dissatisfaction related to the program?
- How is the performance appraisal being carried out?
- Does management see the program as a burden of paper work?
- Do problems arise in setting up goals?
- Can objectives be set for every position?
- How often, in which form, and through which channels is feedback given?
- Is the practice satisfactory with its present state; that is, does it seem likely to last?
- Above what it has provided upto now, are any further benefits expected from the MBO practice?



### Philosophy and Rationale of MBO.

1. Link evaluation to performance. 0
2. Aid manager in planning. 0
3. Motivate managers. 0
4. Increase boss-subordinate interaction and feedback. 0
5. Develop management potential. 0
6. Link organization objectives to department objectives. 0
7. Managers know what their job is and what is expected of them. 0
8. Give management information about things going on at lower levels. 0
9. Management club to pressure performance. 0

### Advantages of MBO.

1. The individual knows what is expected of him. 0
2. Forces planning and setting target dues. 0
3. Forces boss-subordinate feedback and communication. 0
4. Increases awareness of organization goals. 0
5. Documents goals relating evaluation to performance. 0
6. Focuses on self-improvement. 0
7. The individual knows where he is standing. 0
8. Coordinates activity toward organization objectives. 0
9. Subtle pressure to perform better. 0
10. Improves performance if used. 0
11. Only a general help. 0

### Problems and Disadvantages Associated with MBO.

- |  |   |
|--|---|
| 1. Excessive formal requirements.  | 0 |
| 2. Not used to full potential.   | 0 |
| 3. Need to consider different goals for different jobs and levels.       | 0 |
| 4. Never get good feedback.  | 0 |
| 5. I was never really involved in the program.                           | 0 |
| 6. It is undesirable to commit oneself to objectives and goals formally. | 0 |
| 7. Lack of information about personal characteristics.                   | 0 |
| 8. No real problems.   | 0 |

### Suggestions for Improving the Program.

- |   |   |
|---|---|
| 1. Ensure review and feedback.  | 0 |
| 2. Develop a way to update goals so that changes can be noted.                  | 0 |
| 3. Provide use by top management so that their goals are known at lower levels. | 0 |
| 4. In addition to set goals, include "personal" evaluations too.                | 0 |
| 5. Top management should support the program.                                   | 0 |
| 6. Increase the understanding of the program and setting goals.                 | 0 |
| 7. Include "normal" job requirements.   | 0 |
| 8. Ensure real participation and involvement in goal setting.                   | 0 |

# APPENDIX B QUESTIONNAIRE STUDY

To a very great extent  
I To a great extent  
I I To a moderate extent  
I I I To a minor extent  
I I I I To no extent  
I I I I I  
O O O O O

1. To what extent did the performance goals set for you under the program reflect the most serious and pressing needs of your department and the company? O O O O O
2. To what extent did the self improvement goals set for you reflect your personal development needs? O O O O O
3. To what extent were you given feedback on your progress on performance goals? O O O O O
4. To what extent were your performance goals clearly stated with respect to results expected? O O O O O
5. To what extent was the relative importance of your various performance goals pointed out to you? O O O O O
6. To what extent do you feel you control the means of reaching your performance goals? O O O O O
7. To what extent do you think that your organization has interest in the MBO program? O O O O O
8. To what extent do you think that your boss has interest in the MBO program? O O O O O
9. To what extent do you think that your boss has interest in the MBO program? O O O O O

10. In general, to what extent are you satisfied with the MBO program? O O O O O

11. In your opinion, to what extent will your actual job performance affect your future salary increases? O O O O O

12. How successful were you in attaining the performance goals set for you under the MBO program?

- a. Performance was much higher than the goals set.
- b. Performance was a little higher than the goals set.
- c. Performance was about equal to the goals set.
- d. Performance was a little less than the goals set.
- e. Performance was much less than the goals set.

13. How successful were you in attaining the self improvement goals set for you under the MBO program?

- a. Improvement was much higher than goals set.
- b. Improvement was a little higher than the goals set.
- c. Improvement was about equal to the goals set.
- d. Improvement was a little less than the goals set.
- e. Improvement was much less than the goals set.

14. Who had the most influence on setting the performance goals for you?

- a. My boss had much more influence than I.
- b. My boss had somewhat more influence than I.
- c. My boss and I had about equal influence.
- d. I had somewhat more influence than my boss.
- e. I had much more influence than my boss.

15. Who had the most influence on setting self improvement goals for you?

- a. My boss had much more influence than I.
- b. My boss had somewhat more influence than I.
- c. My boss and I had about equal influence.
- d. I had somewhat more influence than my boss.
- e. I had much more influence than my boss.

16. Did your boss indicate any priorities for your self improvement goals?

- a. Yes.
- b. No.

17. When your performance goals were established, what did you feel about the probability of their attainment?

- a. I felt I had more than a 90% chance of attainment.
- b. I felt I had about a 75% chance of attainment.
- c. I felt I had about a 50% chance of attainment.
- d. I felt I had about a 25% chance of attainment.
- e. I felt I had less than a 10% chance of attainment.

18. Given your present situation in life, rank the following items in order of their importance, one through seven.

- Opportunity to use one's skills.
- Opportunity to experience a sense of accomplishment.
- Salary.
- Recognition in current job.
- Promotions.
- Pleasant co-workers.
- Job stability.

19. Have changed bosses within the last year?

a. Yes.

b. No.

20. Have you joined the organization within the last year?

a. Yes.

b. No.

21. Was the MBO program in effect when you first joined the organization?

a. Yes.

b. No.

22. Were you exposed to any training program or seminar before starting to work within the MBO framework?

a. Yes.

b. No.

23. Other than the difficulties of your present job, do you believe that the MBO practice loads you with extra burdens?

a. Yes.

b. No.

24. Which unit of the organization are you a member of?

## APPENDIX C

## SYSTEM VARIABLES' COMPOSITION AND MEAN SCORES

The system analysis was carried out with the assumption of Performance and Satisfaction being output variables, and Needs, Objective setting, Feedback, Interest being the input variables; at a significance level of  $p > 0.01$ .

The composition of these variables, and their mean scores are as follows:

Needs. This variable is a composite score of question 1 and 2 in the original questionnaire. Mean score= 3.26.

Objective setting. This variable is a composite score of questions 4, 6, 14 and 15 in the questionnaire. Mean score= 3.26.

Feedback. This variable is a composite score of questions 3,5,17,16(\*) in the questionnaire. Mean score= 3.23.

Interest. This variable is a composite score of questions 8 and 9 in the questionnaire. Mean score= 3.73.

Performance. This variable is a composite score of questions 12 and 13 in the questionnaire. Mean score= 3.50.

Satisfaction. This variable is a composite score of questions 10 and 23 in the questionnaire. Mean score= 3.80.

Note: All mean scores are over a full scale of 5.

\* This binary response question was reflected into the final Feedback score by scaling the average scores of questions 3,5, and 7 up or down by one point.

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