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Management By Objective For Appraisal Firms

Most appraisal firms do not have formally or clearly established goals. Field appraisers employed by a firm may have little if any opportunity to provide input into its operation and management may be resistant to change. With limited growth opportunities and a rigid organizational structure, the only way for a field appraiser to advance may be to move to another firm. A management technique called Management By Objective (MBO), which attempts to integrate workers and management to achieve a company's goals and to provide additional incentives for field appraisers, is the focus of this article.

Appraisal firms can be authoritarian, with hierarchies clearly defined. There is usually a clear distinction between management and field appraisers with the channel of communication flowing downward. Field appraisers usually have little if any input into the operation or management of the firm and often meet resistance to change at the upper levels. Essentially, they are relegated to the line position with little chance of growth beyond their present positions. This may lead to frustration and if they are unable to grow or learn further at their current level, the only avenue open for development is to move to another firm. By involving the lower, middle, and upper levels of a firm through a technique called Management By Objective (MBO), job satisfaction may be increased, resulting in less turnover, more communication, and more teamwork within a firm.

WHAT IS MANAGEMENT BY OBJECTIVE?

MBO was one of the popular buzzwords that sprang up in the early 1970s to provide a solution to the adverse relationship that existed between management and employees in many U.S. firms. Based on practical solutions and real-world common sense, MBO is simply a technique for facilitating communication between management and employees on company objectives, setting individual and corporate goals, establishing an effective reward and motivation system, and developing a useful feedback monitoring system. Although it is not a guaranteed panacea for internal difficulties, it is one method for bringing management and subordinates closer together.

Many definitions of MBO exist. For the purposes of this article, the following

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definition, offered by Richard Steers in his book, *Introduction to Organizational Behavior*, will be used:

> MBO is a process in which employees of complex organizations, working in conjunction with one another, identify common goals and coordinate their efforts toward achieving them.[1]

BENEFITS OF MBO FOR APPRAISAL FIRMS

A great many advantages can be gained by using MBO within an appraisal firm.

Greater input into the job

If MBO is used in a firm, field appraisers are no longer merely informed as to what their jobs entail. They are now made aware of higher-level objectives and priorities that they must help carry out. They form their own plans for achieving their share with these objectives in mind. They also have input into the determination of higher-level objectives. Essentially, they have two ways of determining many of their own responsibilities, individually and collectively.

More self-management

After determining their own objectives, field appraisers have greater self-management in determining a firm's objectives and the methods for achieving those objectives. This also helps reduce a supervisor's management responsibility because an employee has more accountability for his or her goals and performance. Without MBO, an appraiser frequently must ask a supervisor for approval.

Rewards based on results

Employees often complain that no matter how hard they work, they receive little credit or positive feedback. Proponents of MBO contend that an appraiser will be gauged by his or her objectives and the degree to which they are achieved. Similarly, compensation should be tied to results. MBO incorporates a bonus system large enough to motivate an appraiser.

Escaping frivolous activities

MBO asserts that the important business activities be separated from the routine. Because an appraiser is responsible for meeting challenging goals and is rewarded accordingly, a conscious effort is made to avoid frivolous activities not geared toward an objective. This helps appraisers avoid losing time and productivity.

Greater commitment and motivation

Human beings are more highly motivated and committed to a cause when they have definite, concrete objectives to work toward. MBO provides a structured program to help appraisers get more involved.

Better coordination and communication

Improved coordination and communication are forced on both management and appraisers by MBO, because both are expressing their views on what objectives they can and cannot accomplish, and what each person can do to help achieve a firm's overall mission.

Increased job satisfaction

With specific objectives laid out, more interaction and communication between the management and the employees of an organization, significant compensation directly tied to the achievement of objectives, and a clearer picture of how an appraiser fits into the overall company scheme, job satisfaction naturally will increase.

MBO STEPS

The following four steps are required to establish MBO:

1. The desired goals and direction for an organization during a particular period are determined by management (i.e., the overall objectives and priorities are established).
2. All key managerial, professional, and administrative personnel are required, permitted, and encouraged to contribute their maximum efforts to achieving the overall objectives.
3. The individual objectives of all key personnel are blended and balanced to achieve the organizational goals of the firm.
4. A control mechanism is established to monitor progress on ob-

1. Richard Steers, *Introduction to Organizational Behavior* (Glenview, Illinois: Scott, Foresman and Company, 1981), 166.

jectives and feed the results back to those accountable at all levels.

These four key elements must be present for MBO to work; otherwise it will be ineffective. Unfortunately, many firms that have tried to use MBO have compromised one or more of these elements. Failure to obtain the desired results prompted them to return to their old style of inefficient management.

ESTABLISHING OVERALL OBJECTIVES AND PRIORITIES

The first part of establishing the overall objectives of a firm is to define its mission statement or purpose for being. This is the one step of MBO that is solely determined by the owners. It is up to them to determine in what direction(s) the firm must move to be competitive and to maximize its competitive advantage. For example, a mission statement might be "to provide the highest quality appraisal reports possible," or "to provide appraisal services in as many profitable areas as possible given current employee resources."

After defining the mission statement, objectives are set at the organization level. Typical organizational objectives usually include one or more of the following points:

- Increase appraisal profitability
- Increase the competitive position of the firm
- Increase productivity
- Achieve more technical leadership
- Develop employee skills
- Improve employee/management interaction
- Increase customer satisfaction and perceived quality
- Diversify into additional revenue-generating areas such as tax appeal and condemnation work
- Obtain larger assignments, such as hotel or large office building appraisals, which carry higher fees
- Reduce costs

Developing the objectives of an organization involves two critical aspects: 1) those responsible for directing the organization must establish the overall objectives and priorities of the firm; and 2) all employees are required and encouraged to contribute as much as possible to the formulation of these overall objectives, both on an individual and group level. Employee input prevents management from selecting unreasonable objectives that cannot be obtained, because employees know their limitations and constraints.

After defining organizational objectives, the individual goals are established. First, each person formulates individual objectives. There are several important factors that must be considered to effectively set individual objectives:

- *Objectives should be specific and measurable.* For example, the goal "to obtain larger assignments" is too vague. A better goal would be "to obtain larger assignments in hotels or larger office buildings." An even better goal would be, "to obtain five hotel assignments and ten complex office building assignments in the coming year."
- *Objectives should be realistic and attainable.* It is self-defeating to set unrealistic objectives or to refuse to revise them if subsequent events indicate that the objectives are based on false assumptions or insurmountable problems.
- *Objectives should match experience and capability.* Expecting assignments in certain areas, such as hotels, is unrealistic if no one in a firm has the experience to do them. Similarly, not all appraisers are capable of extremely involved, complicated assignments, and expecting them to be able to do such assignments is unrealistic and self-defeating.
- *Objectives should challenge the participants.* Everyone has some idea of what they can achieve in the work environment. The objective should encompass more than they are doing now but less than what they cannot do. Management can also provide additional insight into what objectives are attainable.

Individual objectives might include:

- Take three appraisal classes toward an MAI designation this year.
- Reduce long-term costs by 10% through automation and computer investment.

- Increase average billable fees by 15% through adding five extra working hours per week and by engaging in less frivolous activity on the job.
- Increase report quality by becoming proficient in appraisal software such as Lotus, Office 2, and others.

After an appraiser has formulated individual objectives, the manager sets the anticipated goals for the individual, always remaining cognizant of the fact that an employee's goals should significantly contribute to the overall objectives for which he or she is responsible.

A personal conference between a manager and an employee is then conducted. The manager reviews the employee's objectives and adds suggestions for improvement. They form mutually acceptable objectives for the employee. Final drafts of the objectives are then prepared and distributed to the manager and the employee.

A manager should ask an employee what he or she can do to help the employee accomplish the objectives. These suggestions can then be incorporated into the manager's objectives. In essence, both manager and employee contribute to each other's objectives and a two-way channel of communication is thus opened.

CONTRIBUTE MAXIMUM EFFORT TO REALIZING OBJECTIVES

Goal-setting can help create more unity, team spirit, and harmony among a firm's members. Management must make every effort to gain the full cooperation of the appraisers and the staff in this goal-setting process. This is done through communication and an effective reward system.

Although communication is present as a daily ingredient in business, both a manager and an appraiser must have an open dialog on objectives. All participants must communicate their desires, ideas, and plans, and an essential part of this process is listening. This communication between management and appraiser of itself makes MBO worthwhile, because understanding an employee's position is the first step to solving any problem that might result in turnover or lack of productivity.

Communication is not enough, however; an appropriate reward system must be established to encourage an appraiser to perform to maximum capacity. A straight salary with no incentive pay is not enough motivation because the requirements of MBO may seem to be merely another nonrevenue-generating activity to an appraiser. A fee split is also insufficient because, again, it contains no added incentive beyond what an appraiser has already been doing. Some form of salary-and-bonus or commission-and-bonus system should be established to reward those who attain their objectives, contribute to the overall firm objectives, and help achieve the goals in the mission statement. It should be noted, however, that the bonus must be substantial in an appraiser's view because a small bonus after months of hard work is not enough to provide long-term motivation. An example of a substantial bonus is 30% to 50% of the base salary.

BLENDING THE RESULTS FOR THE ORGANIZATION

After defining the objectives and setting up the necessary channels of a communication and reward system, it is necessary to review the inputs and the results. A master plan should be created with each part clearly delineated and placed in relation to the whole. An organizational chart is usually a good way to view the various objectives. By depicting each of the objectives in relation to the whole, weak areas or unattainable objectives are easily noticed and changed. Such a review should be done in a group setting so that management does not appear to have created its own set of guidelines or objectives for individuals.

ESTABLISHMENT OF A CONTROL MECHANISM

Few appraisal firms without MBO or an effective management plan have a good control mechanism in place. Feedback is rarely received from clients on such key issues as report quality, turnaround time, price, or general level of service. This is because no control mechanism has been established to measure these variables for most firms.

An MBO firm pays strict attention to the control mechanism. Because appraisal

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firms are service organizations, knowing how well customers are serviced is extremely important; it also allows a firm to quickly adapt to potentially profitable areas. It is here that the feedback, both positive and negative, helps shape the firm and individual objectives. The reward system is tied directly to the control mechanism in an MBO firm, so measuring the variables that affect the objectives is important, enabling management to pay employees fairly and to maintain the motivation for MBO over the long run.

There are two types of feedback that, when combined, provide the measure of how well an appraiser has achieved objectives. The first can be called operational feedback because it revolves around the daily feedback a manager gets from an appraiser that allows him or her to track progress. The second is periodic feedback, which comes from performance appraisals or evaluations.

Appraisal managers have an understanding of operational feedback because it is developed from daily interactions with appraisers. Periodic feedback, however, is the critical element in determining whether a firm is meeting its objectives and its mission statement. This can be accomplished through periodic surveys, usually done monthly or quarterly. Here, a manager telephones clients to discuss how well the firm is satisfying client needs for quality, service, turnaround time, and other variables. This also gives a manager a chance to sell the firm and receive more business or to inquire about the collection of an invoice. Another way of receiving feedback is to call clients at intervals after receiving an appraisal; for example, every 30 days until it goes through review. This could provide feedback from more than one reviewer as the report goes through its review process. Lastly, an independent survey company can be hired to obtain feedback on key variables that affect clients. Although this may be expensive, an independent survey company can often obtain more data than can a manager alone. Also, it helps foster the image that a firm cares about its clients and their needs.

After obtaining this feedback, a manager should schedule a personal conference with each subordinate. An employee should compile a "performance statement" showing his or her accomplishment on each objective and plotting this against the corresponding assigned goal for this meeting. Any additional accomplishments not specifically addressed in the goals as well as any variances should be noted for discussion during the personal conference.

At the conference, the sources for the variances must be explained. Were they caused by factors beyond an employee's control? Were they failures of the employee, the manager, or some combination of both? An agreement should then be formulated on the performance of the employee on each objective.

Finally, the amount of bonus or additional compensation to be paid to an appraiser based on the achievement of these goals must be determined. If performance has been satisfactory and the objectives met, an appraiser should be rewarded in proportion to effort; this compensation must be sufficiently large to keep him or her motivated into the future.

PITFALLS OF MBO

For MBO to work, management must be aware of the pitfalls that can cause it to fail, problems that are enumerated in the following sections.

Failure to convince employees to accept MBO

Management can often accept MBO more easily than employees. A reason must be provided to convince the employees to believe in the program. The benefits of the system, chiefly the reward system, must be clearly presented to the employees, and the reasons the employees must accept MBO should also be explained. If these items are presented in the proper way, and if encouragement for the program is also present, MBO will probably be accepted.

Leadership style

Management must be sympathetic and interested in the goal-setting process and be continually responsive to the various situational changes that may occur over time. Management inflexibility, or returning to an authoritarian style of management, will quickly destroy the benefits of MBO. Management must set the example.

Overly rigid goals and too much emphasis on goals

Looking too much at the short-term bottom line can reduce MBO effectiveness. Employees should be encouraged without being pressured to reach a certain level on a daily or weekly basis. Situations may change, and management inflexibility and unwillingness to modify goals may result in a dissatisfied employee.

Difficulty in measuring performance

Different employees or appraisers can be responsible for different areas in an appraisal firm. Entry-level employees may be less skilled and require more time to reach management's expectations. The fee structure of litigation appraisers can lend itself to a different bottom line than an appraiser who works only for banks. It can be difficult for a firm to measure performance or to help in setting goals for each individual. While the work history of an appraiser can set a base from which to work, care still must be taken to develop a reward system because problems may arise in individual performance measurement.

CONCLUSION

MBO provides a way for all involved to have input into the running of a company and at the same time gives each person clearly defined goals. A sense of purpose and participation can be created when each person knows what is required of him or her and is helping to define how to achieve those goals. If nothing else, MBO can clarify company goals and provide feedback from appraisers to management and vice versa. While this alone makes MBO worthwhile, the real benefit comes from improved communication and increased job satisfaction. Successfully implemented, this strategy can help firms retain their appraisers, increase appraiser effectiveness and job satisfaction, and perhaps even make the office a better place to work.