

## The Use of Management by Objectives in Municipalities: Still Alive?

Alvin E. Holliman<sup>1\*</sup>, and Marcia Bouchard<sup>2</sup>

<sup>1</sup>Doctor of Management, Associate Professor of Management, Marymount California University, USA

<sup>2</sup>Doctor of Management, Adjunct Professor of Management, University of Maryland University College, USA

### Abstract

While Management by Objectives (MBO) has essentially been ignored in the past twenty years by researchers, particularly regarding its use and/or usefulness by municipalities, Holliman explored its relevance along with other management models in his doctoral dissertation. Findings included exclusive use by 3% of the 893 survey respondents and use in combination with other models by 14% of the respondents. In effect, MBO is used in some form by 17% of the municipalities. Furthermore, its usefulness as a model for enhancing management control was found to be slightly useful with a mean rating of 4.06 on a six point Likert scale, based on all responses, and 4.54 (between slightly useful and moderately useful) when considering valid responses for cities using that system only. Furthermore, MBO's rated usefulness compares favorably to ratings for other management models and data suggests it should be regarded as an effective tool for enhancing management control.

**Keywords:** Management by objectives; Management models; Management control; ICMA; GFOA

### Introduction

Recent studies (since 1995) of management models in municipalities focus extensively on performance management and related measurement practices. The Government Finance Officers Association (GFOA) prescribes that performance management and measurement must be in place and evidenced within a government's budget document for it to be considered for the Distinguished Budget Presentation Award. Explored by Alvin E. Holliman [1], in his doctoral dissertation, was the premise that the GFOA-prescribed criteria serve as a default management model in a majority of municipalities in the United States. Use of Management by Objectives (MBO) was thought to be minimal. The research question guiding this study is: To what extent is MBO as a management model used in supporting management control in municipalities? In order to answer the research question, 893 practicing municipal managers from the International City Managers Association (ICMA) were surveyed as part of Holliman's 2010 dissertation [1].

### Review of Key Literature

#### Similarities and differences between the public and private sectors

Public sector organizations fit into Peter Drucker's [2] category of service institutions, which includes local governments. Drucker posits that service oriented organizations do not materially differ from for-profit enterprises except for their specific missions. He explains that each type of entity faces issues of productive efforts and employee performance. Social responsibilities and the relationship to the environment and other governments or agencies are similar. Drucker notes that the purpose, mission, and values do significantly differ between commercial business enterprises and service organizations. Therefore, managing for performance in a service setting, such as a municipal government, must consider the relationship of performance objectives to the overall purpose of the organization. Institutional management theory, a comprehensive term applied to the management of all organizations [2], is largely oriented toward the for-profit private sector. Drucker criticizes the notion that governments must be run like a business. He argues that service institutions should strive for effectiveness, not efficiency. This occurs as a result of understanding the purpose and mission of the organization and then directing behaviors which meet the related objectives in the most effective manner [2].

Providing a different perspective is Mikesell's [3] discussion of business enterprises versus government which focuses particularly on the differences in financial management. Mikesell posits that modern public financial management borrows extensively from the private sector and each sphere attempts to maximize value for its stakeholders. However, these sectors differ significantly in terms of resource constraints, ownership, and objectives. Mikesell further explains that government also has the unique power to tax, prohibit, and punish, and this capacity to coerce sets government apart from business. Public and private organizations are both concerned with fiscal sustainability, but business sustains itself through the voluntary exchange of goods and services for money. Governments provide services required for the functioning of society from a safety and welfare perspective for which it taxes the citizenry with no voluntary exchange mechanism [3].

A wider perspective is Matheson's [4] description of the similarities and differences of the private and public sectors in the United Kingdom. According to Matheson, private sector disciplines include provisions for a profit and meeting shareholder/ownership expectations, whereas the public sphere has tight expenditure controls with very strict accountability standards in place. However, both sectors are faced with similar pressures for change, such as greater cost efficiency, increased value for one's money (more for less), and improved customer satisfaction. It is the expectations of greater efficiency, which is contrary to Drucker's warning [5], and getting more government service for less that perhaps fuels the impetus of New Public Management (NPM), a theory embracing private sector practices in government.

### Theoretical and Practical Considerations

The theory and practice of MBO was first promulgated by Drucker [3]. However, Greenwood [6] notes that Drucker credits Harold

**\*Corresponding author:** Alvin E. Holliman, Doctor of Management, Associate Professor of Management, Marymount California University, USA, Tel: 310-377-5501; E-mail: [hollimanprof@gmail.com](mailto:hollimanprof@gmail.com)

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Smiddy of General Electric with using the tool in the 1940s, albeit with the goal of implementing a single objective. According to Drucker [3], theory underlying MBO centers on the concept that individual job performance must be directed toward the objectives of the entire enterprise. Each manager's job must be oriented to the success of the whole, with results measured and judged by manager's role in the success of the organization. The aim of MBO is to ensure performance by translating organizational objective needs into personal goals of the manager. Philosophically, MBO depends on the actions of an individual's behavior and motivation [3]. Ingham [7] acknowledges that MBO is no longer operative as a model of choice in organizations. The primary problem with the model is implementing objectives among the workers who must take ownership of organizational objectives [7]. However, Ingham analyzed a successful application of MBO in a Swedish company, which found ways to engender the necessary staff support. Critical to an effective MBO approach was execution of a "contract for improvement", signed by the workers after the opportunity to question stakeholder objectives. One could argue the Swedish approach is closer to the original model intended by Drucker [3], which encouraged worker involvement for the model to be successful. Applications of the model in many instances, and a reason for its demise, ignored necessary worker participation in the deployment of its objectives [7].

MBO is often used as an example of management models that are adopted by organizations without consideration of contextual realities surrounding the entity, thus rendering the model ineffective [8]. A major problem with MBO includes the significant tendency to implement MBO from a top-down approach, seeking to normalize and control worker behavior [9,10]. As a result, individual freedom and decision-making among the workers is inadequate when compared to the original model's intentions [11], who conducted a study of MBO at Volvo. The authors' findings suggest the model may be more pervasive than recent literature suggests. In particular, the authors argue that MBO is best suited to mechanistic or bureaucratic organizations where objectives can more easily drift down the organizational hierarchy. Criticism of the model by Dashlsten et al. [11] asserts objectives are not easily communicated or interpreted in a uniform manner. In Volvo's case, unintended consequences of MBO occurred because the various work units were given freedom to impose their own interpretations of sales volume objectives, but the workers inappropriately commingled these interpretations with other measures, such as profits, customer satisfaction, and performance objectives [11].

## Government applications

Pre-dating the advent of performance management was the introduction of MBO into local government. Public sector implementation of MBO first occurred in the 1970s as directed or encouraged by the Nixon administration [11]. Arguably, elements of MBO, such as transference of organization-wide goals and objectives into individual employees' goals and objectives, are inherent in related performance management and measurement systems.

Moore and Staton [12] conducted a quantitative study of mayors and city managers in the United States who served cities with populations exceeding 100,000. Their purpose was to determine the extent of use of MBO in cities and the related usefulness. Their findings suggest that, in general, municipal use of MBO is effective. Response items rating high on the usefulness scale included increased goal clarity, improved employee understanding of job roles, increased motivation for achievement, and better enabling of management to set priorities [12].

Rogers and Hunter [13] support Moore and Staton's [12]. Findings through a survey of 70 MBO studies in both the public and private sectors. Findings of their study show the three primary processes of MBO (participative decision making, goal setting, and objective feedback) were found to improve public service performance throughout their surveys. Furthermore, MBO is equally successful in government when compared to the business sector, and public sector productivity gains were greater when top management was highly committed to the MBO approach [13]. This article was written at a time when MBO may have been at its pinnacle as previously evidenced by Dahlsten et al. [11], who assert that 80% of Fortune 500 firms used MBO in 1992. As a result, because of widespread usage of the model during this period, more positive effects may be realized when compared to limited utilization today.

Poister and Streib [14] surveyed municipal managers regarding the usage of MBO in local government. The authors had a 46% response rate with 520 usable surveys from members of the ICMA. The findings suggest that 47% used MBO, while 7% stated they had dropped MBO as a model in the past five years. Noteworthy was the finding that only 10% of the respondents reported extension of MBO to employees at the operating level, and most of the public sector MBO systems were limited to senior and middle-level managers. In addition, there was no relationship between the depth of coverage of MBO and organizational size [14]. Other findings showed MBO had favorable impacts as a decision making tool. Very effective ratings were ascribed to 28% of the respondents, while 68% described MBO as somewhat effective. Only 4% of the respondents reported that MBO was ineffective as a decision making and management aid [14].

It is interesting to note that the literature search conducted by Holliman [1] found no material articles or other sources for MBO's use in local government beyond the 1995 Poister and Streib article [14].

## Research Methodology

A quantitative approach was utilized to determine the use and usefulness of MBO and other management models by municipalities. Surveys were emailed to 4,493 potential respondents, all members of the International City Managers Association (ICMA) who were presently employed by a municipality. Completed surveys were returned by 893 members for a response rate of 19.9%. Survey questions used a six point Likert scale.

## Management Control as the Dependent Variable

The degree of "management control" was the dependent variable (DV) [1]. The definition, adapted from Hofstede [15] and Shafritz and Russell [16], is "the ability of management to direct the municipality in ways that meet strategic objectives and community expectations by comparing actual versus planned performance and implementing procedures to correct substandard performance."

Operationalization of the DV was through four survey items, each weighted at 25% in forming the sub-scale construct. These questions/ responses, using a six level Likert scale, concerned: (a) the respondents' overall rated degree of management control in the city they work for; (b) the ability of the senior management team to procure and retain adequate resources to enable attainment of strategic objectives; (c) the ability of the senior management team to control expenses and protect assets, and; (d) the ability of the senior management team to use subordinate staff in ways which meet strategic objectives.

## Usefulness of MBO as the Independent Variable

Answers to survey questions in the questionnaire served as the mechanism by which the independent variables were operationalized. A certain amount of overlap exists between performance measurement systems/practices, the BSC, and MBO. Therefore some of the survey items and related responses pertain to the usefulness of strategic management systems in general. Ten survey questions addressed the utilization and usefulness of strategic performance management practices, in general, whether or not respondents' cities actually used a management model or prescription. As such, these items were relevant for operationalization of performance management/measurement systems, including the GFOA prescription, any generic or customized system, MBO, and the BSC, and were also intended to produce evidence of strategic management practices in cities that employ no model or approach. These questions concern employee involvement in strategic efforts, linkage of citywide strategy to output measures, and translation of citywide goals and objectives into department and division goals. Operationalization of the usefulness of all management models involved responses to these questions with different weightings, depending on the particular mode and other components of its construct [1]. Operationalization of MBO was developed by the 10 aforementioned generic questions/responses applicable to all models and the four questions/responses germane to only MBO and the BSC. The composite weighting of those 14 items at 4% each was 56%. In addition, the sub-scale variable construct was formulated and operationalized by a weighting of 32% for responses to a question addressing the overall usefulness of MBO in supporting management control, and a weighting of 12% for responses to a question concerning the costs versus benefits of such model.

## Findings

### Response Rate by Position, Population, Region, Budget Size, and Reserves

As shown in Table 1, city managers represented the largest response rate by position at 64.30%; followed by assistant city managers, assistants to the city manager, and deputy city managers, collectively at 21.20%; and department heads and other professional staff representing 14.50%. The dominant number of responses by city managers was expected and potentially may be associated with a certain amount of bias in the survey results toward strong management control ratings.

Respondents working in cities with populations in the 10,000 to 50,000 range comprised the largest group at 39.40%, while respondents from cities over 300,000 represented the smallest group at 4.80%. The other population categories were relatively equal in their response percentages. All regions of the United States were well represented, with the Midwest showing the largest response rate at 29.40%. Respondents working in cities with general fund annual budget sizes ranging from \$10,000,001 to \$50,000,000 represented the largest response group at 39.40% (identical to the response rate for cities with a population of 10,000 to 50,000). Respondents from cities with said budgets in excess of \$500,000,000 comprised 4.80% of the response total (also identical to the response rate for cities with populations exceeding 300,000). Eleven percent of the respondents work in cities with General Fund reserves less than 3% of the annual General Fund budget, while 34.30% are associated with municipalities whose reserves exceed 20% of said budget.

### Response rate by types of management models in use

As shown in Table 2, slightly over 20%, or 179 of the respondents,

Position	Response Rate	Response Count
City Managers	64.30%	572
Assistant, Assistant to, or Deputy City Managers	21.20%	188
Department Heads and Other Professional Staff	14.50%	123
Answered Question		890
Skipped Question		3
Population of Residents		
Under 10,000	17.80%	158
10,000 to 50,000	39.40%	350
50,001 to 100,000	19.80%	176
100,001 to 300,000	18.10%	161
Over 300,203	4.80%	43
Answered Question		888
Skipped Question		5
Region of United States		
Northeast	12.70%	113
Southeast	21.20%	188
Midwest	29.40%	261
Southwest	14.90%	132
West	21.80%	194
Answered Question		888
Skipped Question		5
general fund budget size		
Under \$10,000,000	17.80%	158
\$10,000,001 to \$50,000,000	39.40%	350
\$50,000,001 to \$ 100,000,000	19.80%	178
9103,030,001 to \$503,000,030	18.10%	161
Over \$500,000,000	4.80%	43
Answered Question		883
Skipped Question		5
Ratio of general fund reserves to annual budget		
Less than 3%	11.00%	95
3% to 5%	9.70%	84
5.1% to 10%	17.80%	154
10.1% to 20%	27.20%	235
Over 20%	34.30%	296
Answered Question		864
Skipped Question		29

**Table 1:** Characteristics of respondents and their cities in the sample.

did not answer the question regarding the type of management model in use by the city by which they are employed. It is assumed that these cities do not utilize any type of management model; however, that cannot be precisely determined because the survey did not provide a response category for "none." Respondents who identified a management model in use by their city totaled 710, and exactly 50% or 355 respondents reported that their city utilizes a single system. Dual systems were employed by 38% of the respondents' cities; and nearly 10% of the respondents reported usage of three concurrent management models. Cities using four or five different models were slightly over 2% of the total.

Use of the GFOA prescription for performance measurement was the single largest system in use and was the sole model for 23% of the respondents' cities. In addition, the GFOA was used concurrent with one other system in 35% of the cities; and it was employed with two or more other models in 12% of the respondents' cities. In effect, the GFOA approach is reported as being used in 70% of the cities by respondents who answered the related question as to the type of model

Type of Single system only.	Response Rate All	Response Rate Answered	Response Count
GFOA Budget Awards criteria only	18.34%	22.96%	163
Management by Objectives only	2.59%	3.24%	23
Balanced Scorecard only	0.45%	0.56%	4
Mother generic or "off-the-shelf system only	1.35%	1.69%	12
An internally developed system only	17.21%	21.55%	153
<b>Total single systems only</b>	<b>39.94%</b>	<b>50.00%</b>	<b>355</b>
<b>Dual system only</b>			
GF OA and MBO	3.60%	4.51%	32
GF OA and BSC	0.90%	1.13%	8
GF OA and other "off-the-shelf system	1.80%	2.25%	16
GF OA and internally developed system	21.71%	27.18%	193
MBO and BSC	0.22%	0.23%	2
MBO and other "off-the-shelf system	0.22%	0.23%	2
MBO and internally developed system	1.46%	1.83%	13
BSC and other "off-the-shelf system	0.11%	0.14%	1
BSC and internally developed system	0.22%	0.23%	2
Other" off. the-shelf system and internally developed	0.34%	0.42%	3
<b>Total dual systems</b>	<b>30.60%</b>	<b>38.31%</b>	<b>272</b>
<b>Three systems in use only</b>			
GF OA, MBO, & other "off the-shelf system	0.45%	0.56%	4
GF OA, MBO, and BSC	0.45%	0.56%	4
GF OA, MBO, and internally developed system	3.04%	3.80%	27
GF OA, BSC and other "off the-shelf system	0.22%	0.28%	2
GF OA, BSC and internally developed system	1.24%	1.55%	11
GF OA, other "off-the-shelf system, & internally dev	2.25%	2.82%	20
<b>Total triple systems in use</b>	<b>7.65%</b>	<b>9.58%</b>	<b>68</b>
<b>Four systems in use only</b>			
GFOA, MBO, and BSC, & internally developed	0.22%	0.28%	2
GF OA, MBO, other "off-the-shelf" & internally dev.	1.01%	1.27%	9
Total four systems in use	1.23%	1.55%	11
All five systems in use	0.45%	0.56%	4
Answered Question	79.87%	100.00%	710
Skipped Question	20.13%	N/A	179
Total responses	100.03%	N/A	889

**Table 2:** Types of management models in the by municipalities.

in use. When participating in the GFOA Budget Awards Program, thus requiring the GFOA's approach to performance measurement, cities use one or more companion models with the GFOA prescription in 67% of the cases. Next in significance to the GFOA prescription is internally developed management models, in use on a stand-alone basis just over 21% of the time and used in combination with another system in almost 39% of the cases. As a companion piece to the GFOA approach, this combination is used over 27% of the time and is the most common system in use by cities, followed by the stand-alone GFOA prescription, and stand-alone internally developed systems.

While the MBO model was not expected to be used by municipalities in any significant measure, it was the reported sole system in use by slightly over 3% of the respondents' cities, and was used concurrently with one or more other systems in 14% of the cases, making it used in some form by 17% of the respondents' cities. For purposes of this study, results indicate that the model on a stand-alone basis is not widely in

use by cities today. However, MBO's use as a concurrent model in over 14% of the respondents' cities suggests that it is utilized. Use of the BSC as a sole system was only reported by four respondents (0.56%) and as a companion system to other models it is employed just over 5% (36 respondents) of the time. In total, the BSC is utilized in some form by slightly less than 6% of the respondents' cities. Other generic "off-the-shelf" management models are evidenced by limited usage, with stand-alone utilization in fewer than 2% of the cases, and concurrent usage with other models in almost 9% of the cases. In total, nearly 11% of the respondents' cities use an alternative management system, not specifically identified in this study.

### Data regarding the use and usefulness of MBO by municipalities

Considering the models analyzed, the MBO approach was used in some form by 17% of the respondents' cities. The MBO approach is regarded as slightly useful with a mean rating of 4.06, based on all responses as shown in Table 3, and 4.54 (between slightly useful and moderately useful) when considering the 22 valid responses for cities using that system only.

As shown in Table 2, data indicates usage of MBO in some form by 122, or 17%, of the 710 respondents. Breakdown of the 122 respondents' cities using MBO as a stand-alone or with another model is: 23 MBO only, 32 GFOA and MBO; 2 MBO and BSC; 2 MBO and other off-the-shelf systems; 13 MBO and internally developed; 35 MBO as part of a three model system; 11 MBO as part of four model system, and; 4 MBO as part of a five model system. Data in Table 3 only considers results where N is greater than 20. Therefore, 34 cases were omitted, resulting in 676 responses of which 75 were missing answers to certain questions to equate to 601 valid responses. As a result the total MBO valid responses in Table 3 do not reconcile to the totals in Table 2.

Table 3 also includes data for "all responses." This considers

Response category	n	valid missing n	mean	std. dev.
Usefulness of GFOA only	163	17	146	3.89
Usefulness of MBO only	23	1	22	4.54
Usefulness of internally developed only	153	13	140	4.41
Usefulness of GFOA & MBO combined	32	3	29	4.11
Usefulness of GFOA & internally developed	193	27	166	4.38
BSC in multiple combination with other models	40	5	35	4.32
GFOA, MBO & internally developed combined	27	4	23	5.01
4 model combination, excluding BSC	45	5	40	4.55
Totals N>20	676	75	601	4.29
Total insignificant models, N < 20	34			
Total responses	710			
Skipped question regarding models used	179			
Total responses	889			
<b>descriptive statistics based on all responses</b>				
Regardless of usage:				
GFOA only			587	4.08
MBO only			336	4.06
BSC			154	3.62
Other off-the-shelf only			66	4.49
Internally developed only			409	4.50
Totals (exceeds N of 889, because some respondents rated multiple models, regardless of usage by them)			1552	4.16
				1.01

**Table 3:** Descriptive statistics for all models usefulness ratings.

respondents who were not necessarily using a particular management model, but answered the questions regarding "usefulness" nevertheless. These responses were still considered meaningful, because ICMA members surveyed typically have a high level of professional knowledge about management systems and may have used certain systems in other cities they were employed in, even though not using the system presently. As a result, the total N for this category in Table 3 equals 1,554, because some respondents answered multiple questions regarding systems/models they were not necessarily using.

Findings, as shown in Table 4, suggests the usefulness of MBO, either as stand-alone model or used in combination with other models. Noteworthy in Table 4 are the higher usefulness ratings of 4.57 by those using the MBO model in some form, versus those who rated the model's usefulness at 4.04 but are not presently using the tool in any form. The lower ratings by respondents not using the model may suggest either less favorable experiences with MBO in prior positions at other municipalities, or a general perception that the model is not as effective as a management control tool when compared to other models. However, ratings for all models based on all responses, as shown in Table 3, were 4.07 for the GFOA approach. Only other off-the-shelf models, with an average rating of 4.49, and internally developed models rated at 4.50, were significantly greater.

The overall 4.57 rating for the usefulness of MBO for those using it in any form was higher than ratings for those using only the GFOA approach, rated at 3.89, and those using only the internally developed methodology, rated at 4.40 as shown in Table 3. The only management model system that exceeds the 4.57 rating for all combinations of MBO was the three-model system of GFOA, MBO, and internally developed models rated at 5.01.

The findings presented in Tables 3 and 4 suggest that MBO is not only still in use by municipalities, but it is a very effective model when compared to other alternatives.

### Opportunities for further study

Because MBO is still utilized by municipalities and its features appear to be replicated to various degrees in other performance management models employed, additional study could focus on the specific components of MBO which are Embodied (copied) in other models, thus perhaps giving credence to MBO as a root system. Additional research of the components of MBO used by cities today

may indicate more precise data as to what elements of MBO are useful and thriving in present municipalities. Internally developed systems were reported at a valid N of 140 with a mean usefulness rating of 4.41 as shown in Table 3. Future research regarding more specific aspects of these models and reasons for their use may prove beneficial since a relatively large percentage of municipalities appear to use this approach and regard it as useful.

### Conclusions

MBO was evidenced by usage in some form by 17% of the municipalities studied. Of interest is greater utilization of MBO by municipalities than what was expected from the literature reviewed. Scholarly assertions that the model is "dead" were not upheld by this study. While MBO appears to have lost some of its identity as a model of significance, in favor of the MBO approach for the Distinguished Budget Presentation Award, the findings of this study suggest it is used in some form by a significant number of cities and rated usefulness was relatively high, either on a stand-alone basis or as a companion model.

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	Cases Using MBO in Some Form		Cases not Using MBO, but rated its usefulness		Combined totals	
	Valid N	Rating Valid N	Rating Valid N	Rating	Valid N	Rating
MBO Sole Use	22	4.54	312	4.04	334	4.06
MBO & GFOA	29	4.04			29	4.04
MBO & BSC	2	4.32			2	4.32
MBO & Other Off-the-Shelf	2	4.55			2	4.55
MBO & Internally Developed	11	4.97			11	4.97
MBO as part of 3 Model System	31	4.97			31	4.97
MBO as Part of 4 Model System	9	4.55			9	4.55
MBO as Part of 5 Model System	4	4.55			4	4.55
Totals	110	4.57	312	4.04	422	4.17

**Table 4:** Use and usefulness of MBO - stand alone or in combination with other models.