

Management by Objective (MBO)

Meaning and Definition

Peter F. Drucker gave the concept of MBO in the year 1954 in his seminal work "The Practice of Management". This concept envisages management viewpoint which puts a great premium on the contributions of employees. This concept is recently being applied in the area of performance appraisal.

Management by Objectives (MBO) is a managerial approach for promoting participation of managers and employees towards the common goal fulfilment. Here, focus is on defining objectives so efficiently that both management and employees of the organisation understand their role and position and collectively work towards organisational objectives. MBO is responsible for incorporating goals and objectives of the organisation in order to improve the operational capability of the organisation. All the employees have total clarity on the objectives and get strong indications regarding the framing of their objectives, and implementation plan etc. Through MBO each operational unit within the organisation, clearly identifies its role in attaining strategic goals. People know what is expected of them for the organisation to achieve its objectives. MBO makes a distinction between achieving an objective and getting the job done. The emphasis should be on achieving an objective. The role of the managers is to guide their assistants in the accurate direction and ensure that the right environment is created in the organisation.

According to Prof. Reddin, "MBO is the establishment of effectiveness areas and effectiveness standards for managerial positions and the periodic conversions of these into measurable time bound objectives linked vertically and horizontally and with future planning".

The **features of MBO** are as follows:

- For effective management, the objectives of employees and organisation should be integrated. MBO attempt by the management towards the same.
- Short and long-term objectives are combined with the help of MBO.
- Through MBO, management can relate the objectives of the organisation with the objectives of the society. Along with organisational goals, MBO also focuses upon effective performance of the business.
- MBO lays continuous attention on filtering, modifying and enhancing the objectives and changing techniques used for achieving such objectives.
- The ability of organisational goal accomplishment is improved at all levels.
- MBO helps in motivating and satisfying the manpower of the organisation.
- It enables the identification of manpower involvement in the process of establishing organisational goals.
- Through MBO, authority is replaced by discussion.

- MBO creates and encourages an environment that promotes performance, goodwill and trust.

The process of MBO

Set Organisational Goal

Joint Goal Setting

Performance Review

Set Check Posts

Feedback

- **Set Organisational Goal:** The first step is to set goals and objectives in the organisation. These goals may be set jointly by the superior and subordinates or they may be decided by the superiors alone. The goal is the desired outcome that the organisation wants to achieve.
- **Joint Goal Setting:** The next step is the setting of the short term objectives. This is done by means of a joint meeting between the superior and the subordinates. The manager needs to keep in mind the roles and responsibilities of his subordinates. He may use an organisational chart for this purpose. The subordinate writes down his personal goals and these are then aligned to the goals that the manager has set for the subordinate. The final goals are then decided and put in writing.
- **Performance Review:** The performance standards for the decided goals are then set. These pertain for a particular time period. The subordinates thus have clarity on what is required to be done, how much has been done and how much remains.
- **Set Check Posts:** The performance is reviewed periodically to the standards set to check if the progress is commensurate with expectations. This also highlights training needs of the subordinate and also brings to the fore events which affect the organisation's performance but which cannot be controlled by the subordinate.
- **Feedback:** It has been found that employees who get regular and timely feedback over their job performance are more motivated than those employees who work in a haphazard environment. It also help the employees to know where they stand in the organisation in terms of their performance against the expectations set.

Guidelines for Effective MBO

- **Support of Top Management:** For an effective implementation of MBO, it is very important to have a effective involvement of the top management. These practices will be implemented in the entire organisation, if the top management adopts these methods for better control.
- **Education about MBO:** When the objectives of MBO are clearly determined and the methods for achieving these objectives are suitable, predicted results can be accomplished. Therefore, the concept of MBO must be understood and well-read by every staff member
- **Active Participation in Goal Setting:** During the process of goal determination, there must be an open or face-to-face communication between subordinates and their superiors about re-analysing the performance of employees, discussing problems and re-determining organisational objectives. Thus, a two-way communication must be supported in an organisation.
- **Decentralisation of Authority:** Proper authority must be delegated to the employees, who have agreed upon challenging the work assignments after discussing with their superiors. Employees may refuse new assignments, if they do not have adequate authority, or they can even oppose the establishment of well- defined organisational objectives, if the manager does not delegate authorities to his subordinates. This will ultimately result in the failure of MBO.
- **Orientation of Executives:** As the managers are responsible for efficient implementation of MBO, they must be accurately oriented towards it. Moreover, proper trainings should be provided to the managers for proper implementation and execution of management by objectives.
- **Integration of MBO Programme:** A MBO programme must be integrated with other organisational programmes such as product planning and development. production control, human resource planning, human resource development, financial planning, etc.

Advantages of MBO

- **Motivates and Encourages Employees:** MBO helps in motivating and encouraging the employees for achieving their individual goals. With the implementation of MBO, employees know what is expected from them and also get clarity on the overall objectives of the organisation.
- **Managers are more Likely to Compete with themselves than with Other Managers:** MBO helps in reducing the internal conflicts and minor disputes that arises between the managers of the same company for limited resources. Furthermore, it helps in increasing the morale of the managers as they compete with themselves for better performances.
- **Yields a "Means Ends" Chain:** The objectives of lower-level employees are connected with the objectives of immediate higher level. This results in a "Means Ends" Chain,

MBO integrates this chain and helps in moving towards accomplishment of the overall objectives of the organisation.

- **Gives Criteria for Objective Appraisal:** A rational criteria of objective appraisal is provided by the targets resulting from the MBO process. This criterion is useful in evaluation of managers' performance by appraising them on completion of certain objectives,
- **Facilitates Planning:** MBO facilitates the planning structure of the organisation by assisting the top management in establishing objectives and strategies. It also helps the managers in fixing targets and building strategic plan.
- **Prior Identification of Problems:** MBO has a frequent review mechanism through which it identifies and resolves the problems before their occurrence.
- **Identifies Performance Deficiencies:** The frequent reviews in MBO allow the managers to identify various deficiencies in performances and plan remedial actions accordingly.
- **Facilitates Leadership Development:** The MBO process helps the managers to develop their leadership potentials. It also improves their mentoring skills, and associated aspects of listening, counselling, motivating and evaluating

Disadvantages of MBO

- **Pressure-Oriented:** In the long-run, MBO can be self-defeating as it fosters a reward-punishment methodology. It tends to violate the personality of the subordinate. At times it has also been found to wrongly punish superior performers.
- **Time Consuming:** It demands a lot of time from managers and subordinates in setting up joint objectives which have to be then aligned to the overall objectives of the organisation. The management also has to hold many meetings to train subordinates in the philosophy of MBO and also to gain confidence of the employees. The periodic review mechanism of MBO also takes up lot of time of management.
- **Increased Paperwork:** Along with the time-consuming aspect, MBO also increases the paperwork the required to be maintained. MBO programs require amounts of data to be maintained in the form questionnaires, instruction booklets, performance data, training material and reports. The managers a need to spend a lot of time in designing formats and implementing them across the organisation.
- **Goal-setting Problems:** The joint setting of goals is a very important and critical aspect of the MB program. These goals have to be verifiable and quantifiable. Many a times this becomes more impone than the importance of the goal itself. There is also a tendency to give greater importance to short-t goals than long-term goals in MBO. Goals also have a problem of being rigid.
- **Organisational Problems:** MBO is not a panacea for all the problems that the organisation faces becomes a major failure when the concept is introduced without

proper explanation and training. The failure often defeats the purpose of the exercise and increases resistance.