

Management by Objectives or MBO

Management by Objectives or MBO is a technique which helps a manager to achieve his objectives in an efficient manner. MBO insists that a manager be very clear about his objectives before he starts a task. If a manager is not sure about his destination, he is unlikely to arrive, and in all probability he may not even know whether he is on the right road or not, or if he has arrived or not. MBO is as old as management itself. In fact, management has to be always with and by objectives. Unfortunately, however, most managers are really not sure about their objectives. They are usually not clear as to what their organisation, department or section should achieve within a particular period of time. If properly implemented MBO can provide the dynamism, purpose and trust that are essential characteristics of effective management. It is like inflating back to shape a tube which has become somewhat flat.

Core Concepts of MBO

Management by Objectives (MBO) was first outlined by Peter Drucker in 1954 in his book 'The Practice of Management'. It is a systematic and organised approach that allows management to focus on achievable goals and to attain the best possible results from available resources.

MBO aims to increase organisational performance by aligning goals and subordinate objectives throughout the organisation. It managers focus on the result, not the activity. They delegate tasks by "negotiating a contract of goals" with their subordinates without dictating a detailed roadmap for implementation. Management by Objectives (MBO) is about setting yourself objectives and then breaking these down into more specific goals or key results. Ideally, employees get strong input to identify their objectives, time lines for completion, etc. MBO includes ongoing tracking and feedback in the process to reach objectives.

According to **Drucker** managers should "avoid the activity trap", getting so involved in their day to day activities that they forget their main purpose or objective. Instead of just a few top managers, all managers should:

1. participate in the strategic planning process, in order to improve the implementability of the plan, and
2. implement a range of performance systems, designed to help the organisation stay on the right track.

Setting Objectives

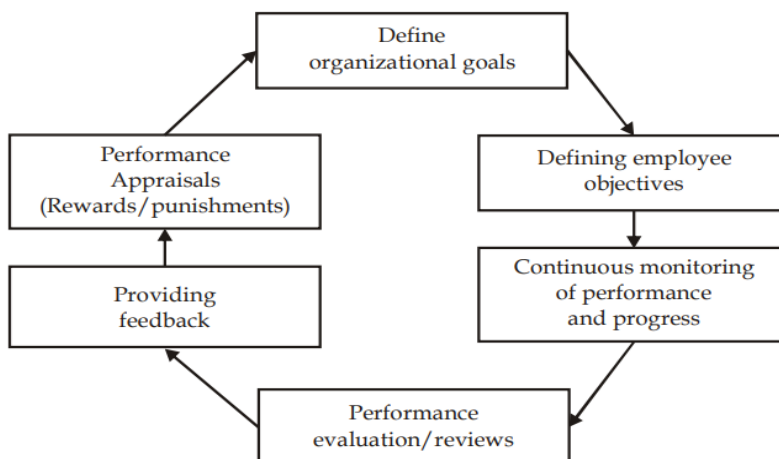
In Management by Objectives (MBO) systems, objectives are written down for each level of the organisation, and individuals are given specific aims and targets. "The principle behind this is to ensure that people know what the organisation is trying to achieve, what their part of the organisation must do to meet those aims, and how, as individuals, they are expected to help. This presupposes that organisation's programs and methods have been fully considered. If they have not, start by constructing team objectives and ask team members to share in the process." For Management by Objectives (MBO) to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors. "A manager's job should be based on a task to be performed in order to attain the company's objectives... the manager should be directed and controlled by the objectives of performance rather than by his boss."

Characteristics of Management by Objectives :

Management by Objectives has following characteristics.

1. MBO emphasises participation in setting goals that are tangible, verifiable and measurable.
2. MBO focuses attention on what must be accomplished (goals) rather than how it is to be accomplished (methods).
3. MBO, by concentrating on key result areas translates the abstract philosophy of management into concrete phraseology. The technique can be put to general use (non-specialist technique). Further, it is 'a dynamic system which seeks to integrate the company's need to achieve its profit and sales growth with the manager's need to clarify and achieve its profit and sales growth with the manager's need to contribute and develop himself.
4. MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focusing on achievable goals. It allows the subordinate with plenty of room to make creative decisions by himself.

Process of MBO: The process of MBO consists of the following steps, as shown in the figure.



I .Defining the Goal

Any MBO programme must start with an absolute enthusiastic support of top management. It must be consistent with the philosophy of the management. The long-term goals of the organisation must be outlined initially, like: What is the basic purpose of the organisation? What business are we in and why? What are the long-term prospects in other areas? After these long-term goals are established, management must be concerned with determining specific objectives to be achieved within a given time capsule.

Goal setting is a powerful way of motivating people. Goals provide a clear idea of what we are trying to achieve. Goals allow us to measure our progress. We are able to plan what we need to do to achieve these goals through people, time, resources etc. Keeping all this in mind companies should set SMART goals. S - Specific, M - Measurable, A - Achievable, R - Realistic and T - Time-based

II.Action Plan

The action plan is the means by which an objective is achieved. The action plan gives direction and ensures unity of purpose to organisational activities. It will state in detail, exactly what is to be done, how the subordinate will proceed, what steps will be taken, and what activities will be engaged in as the subordinate progresses. It provides a specific answer to the question: 'What is to be done?' Questions like who is responsible for each activity, what resources are needed, what the time requirements are would also be answered.

III .Final Review

This is the last phase of the MBO programme. In this step, the actual results are measured against predetermined standards. Mutually agreed-on objectives provide basis for reviewing the progress. While appraising the performance of subordinates, the manager should sit with his

subordinates and find out the problems encountered while accomplishing the goals. The subordinate, as in the periodic sessions, should not be criticised for failure to make sufficient progress; the atmosphere should not be hostile or threatening. A give-and-take atmosphere should prevail and the appraisal should be based on mutual trust and confidence between managers and subordinates. In actual practice, this type of give-and-take session is extremely difficult to achieve and rarely reaches its potential value, unless managers are gifted with necessary interpersonal skills. Often, appraisal takes place for the purpose of determining rewards and punishments; judging the personal worth of subordinates and not the job performance. As a result, appraisal sessions become awkward and uncomfortable to the participants and intensify the pressure on subordinates while giving them a limited choice of objectives. Insecure subordinates may come to 'dread' the sessions and they may not feel free to communicate honestly and openly, without fear of retaliation. Appraisals can be really useful, if the person being evaluated knows and accepts in advance the grounds upon which he is being appraised.

Benefits of Management by Objectives :

MBO is hailed as the greatest innovation in years. Advocates argue that "it is the successor to Taylor's 'mental revolution'-a new way of thinking about, and engaging in, collective effort". It is claimed that when an organisation is managed by objectives, it becomes performance-oriented, it grows, develops and becomes socially useful in many ways:

1. Clear goals: MBO produces clear and measurable performance goals. Goals are set in an atmosphere of participation, mutual trust and confidence.
2. Better planning: MBO programmes sharpen the planning process. Specific goals are products of concrete thinking.
3. Facilitates control: MBO helps in developing controls. A clear set of verifiable goals provides an outstanding guarantee for exercising better control.
4. Objective appraisal: MBO provides a basis for evaluating a person's performance since goals are jointly set by superior and subordinates.
5. Motivational force: Both appraiser and appraisee are committed to the same objective. It forces managers to think of result oriented planning rather than planning for activities or work.
6. Better morale: MBO encourages commitment rather than rote compliance. It is at functional in terms of what top management demands and developmental in terms of people at work.

7. Result-oriented philosophy: MBO is a result-oriented, practical and rational management philosophy.

Limitations of Management by Objectives:

MBO is not a panacea, a cure for all organisational problems. Quite often, many organisations look at MBO as an instant solution to their problems. They fail to recognise that MBO demands careful planning and implementation to be successful.

This technique, like all others, can be no better than the people who try to apply it. Some of the problems preventing MBO from achieving its best results may be catalogued thus:

1. Pressure-oriented: MBO may prove to be self-defeating in the long run since it is tied with a reward-punishment psychology. It is a clear violation of the integrity of subordinate's personality. MBO programmes sometimes, discriminate against superior performers. It tries to indiscriminately force improvement on all employees and at times, may penalise the very people who are most productive in the organisation.

2. Time consuming: MBO demands a great deal of time to carefully set objectives, at all levels of the organisation. Initially to instill confidence in subordinates in the 'new system', superiors may have to hold many meetings. The formal, periodic progress and final review sessions also consume time.

3. Increases paperwork: MBO programmes introduce a tidal wave of newsletters, instruction booklets, training manuals, questionnaires, performance data, reports into the organisation. To stay abreast of what is going on in the organisation, managers may demand regular reports and data in writing, resulting in 'gruelling exercise in filling out forms'. It has created one more 'paper mill'. According to Howell, MBO's effectiveness is inversely related to the number of MBO forms.

4. Goal-setting problems: MBO works effectively when important measurable objectives are jointly agreed upon. It works less, when: (i) Verifiable goals are difficult to set. (ii) Goals tend to take precedence over the people who use it. MBO focuses on end results and it may foster an attitude, that any action is acceptable as long as it helps to achieve the goals. Consequently, unwise decisions are made that would ultimately harm the organisation. (iii) Goals are inflexible and rigid. (iv) There is overemphasis on quantifiable and easily measurable results instead of important results. Many important qualitative goals like job satisfaction, employee attitudes are lost sight of (attempts to set measurable goals

force managers to search for a magic figure for each area). (v) Overemphasis on short-term goals at the expense of long-term goals. Attempts to show results force managers to curtail costs, in areas where a long-term perspective would be more fruitful to the organisation.

5. Organisational problems: MBO is not a palliative for all organisational ills. It is not for everybody. MBO creates more problems than it solves when:

(a) There might be a failure to teach the philosophy to all participants. Too often MBO is introduced across the organisation with little explanation, training or help.

(b) There might be failure to limit objectives. Too many objectives obscure priorities and create a sense of fear and panic among subordinates.

(c) It is inconsistent with management philosophies. Under MBO programmes, managers are forced to take a 180° turn from their present ways of thinking and acting. Instead of planning and deciding things for others, they are advised to invite subordinates and plan for work in an atmosphere of participation, much to their dislike.

(d) The programme is used as a 'whip' to control employee performance.

(e) It leads to a tug-of-war in which the subordinate tries to set the lowest possible target and superior the highest.

(f) The seniors might turn MBO into a sham and start 'playing games'.

(g) Lack of commitment and support of top management.

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