

Essentials of Management

MBO

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MANAGEMENT BY OBJECTIVES (MBO) :



Following are the common features of the organizational objectives :

- ❖ Verifiable and quantified objectives
- ❖ Hierarchy of objectives
- ❖ Network of objectives
- ❖ Multiplicity of objectives
- ❖ Process of objective setting & organizational hierarchy

MBO Defined :



It is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed toward the effective and efficient achievement of organizational and individual objectives.

A method whereby managers and employees define objectives for every department, project, and person, and use them to monitor subsequent performance.

MBO emphasizes on the following :

- ❖ Performance appraisal
- ❖ Short term objectives and motivation
- ❖ Long term planning

Process of MBO :

- ❖ Setting preliminary objectives at the top
- ❖ Clarifying organizational roles
- ❖ Setting subordinates objectives
- ❖ Recycling of objectives

Key result areas: An area in which performance is essential for the success of the enterprise.

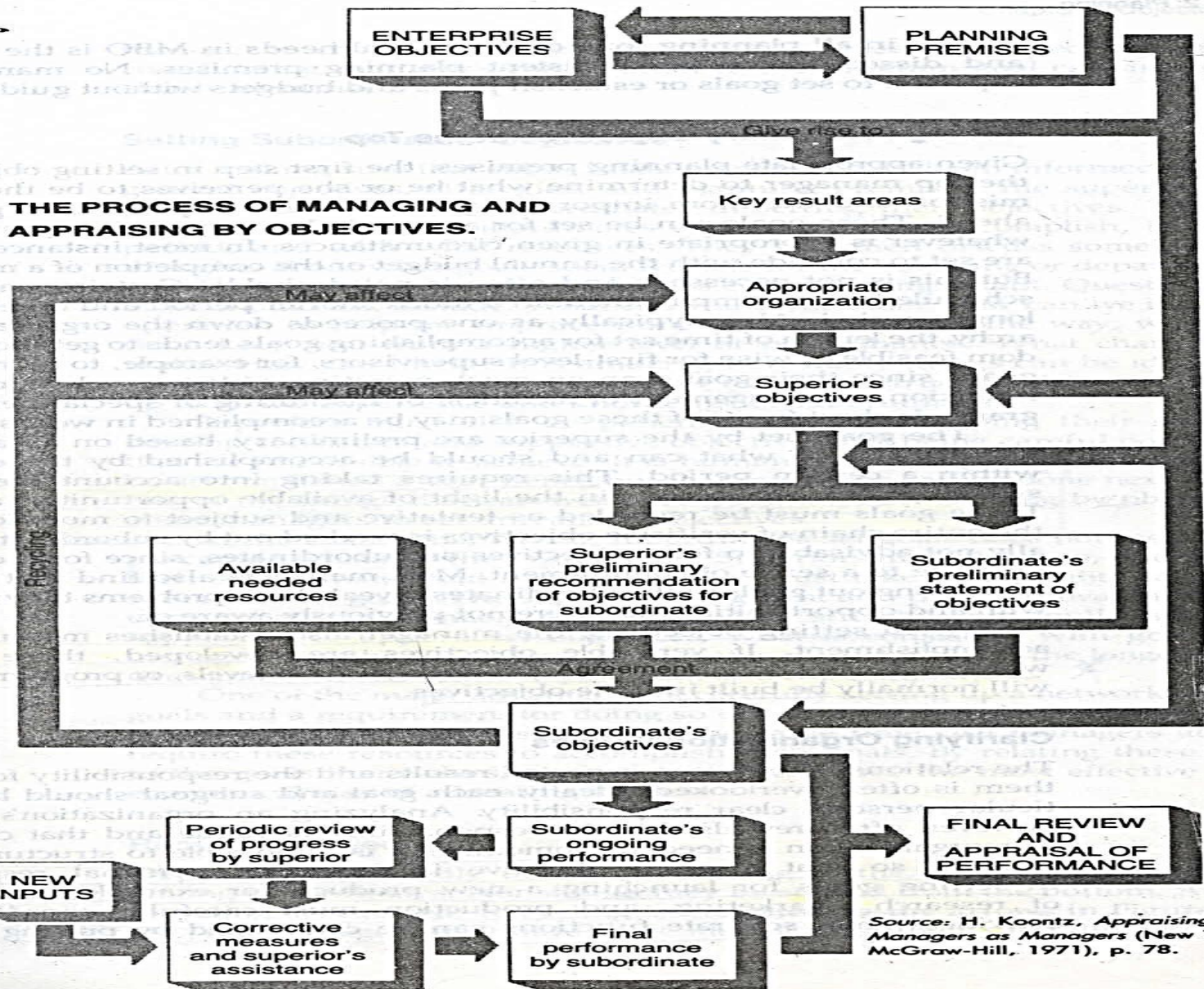
Key result areas for business (Peter Drucker)

- Market standing
- Innovation
- Productivity
- Physical and financial resources
- Profitability
- Managerial performance and development
- Worker performance and attitude
- Public responsibility

Additional Areas:

1. Service
2. Quality

Figure 4-3



Source: H. Koontz, *Appraising Managers as Managers* (New York: McGraw-Hill, 1971), p. 78.

Examples of Nonverifiable and Verifiable Objectives

Nonverifiable objectives

1. To make a reasonable profit
2. To improve communication
3. To improve productivity of the production department
4. To develop better managers
5. To install a computer system

Verifiable objectives

1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To issue a two-page monthly newsletter beginning July 1, 2014 involving not more than 40 working hours of preparation time (after the first issue)
3. To increase production output by 5% by December 31, 2014 without additional costs and while maintaining the current quality level
4. To design and conduct a 40-hour in-house program on the "fundamentals of management," to be completed by October 1, 2014 involving not more than 200 working hours of the management development staff and with at least 90% of the 100 managers passing the exam (specified)
5. To install a computerized control system in the production department by December 31, 2021 requiring not more than 500 working hours of systems analysis and operating with not more than 10% downtime during the first 3 months

SETTING EMPLOYEE OBJECTIVES



- Identify an employee's key job tasks.
- Establish specific and challenging goals for each key task.
- Allow the employee to actively participate.
- Prioritize goals.
- Build in feedback mechanisms to assess goal progress.
- Link rewards to goal attainment.

Benefits of MBO



Benefits of MBO

- The need for planning will be recognized.
- It provides for objectives and accountability for performance.
- It encourages participative management.
- It helps in job enrichment.
- It provides for a good feedback system.

Objectives of MBO



- To identify problems and opportunities in business.
- To convert identified opportunities into clear goals.
- To set up a system to convert these goals into achievements.
- To review the organization in the light of the objectives.
- To establish the objectives of each job and unit.
- To clarify the policies and systems to accomplish the objectives.
- To set up a review system.

WEAKNESSES OF “MBO”



- ❖ Failure to teach the philosophy of MBO
- ❖ Failure to give guidelines to goal setters
- ❖ Difficulty of setting goals
- ❖ Emphasis on short run goals
- ❖ Danger of inflexibility
- ❖ Desire to make goals verifiable people may use quantitative goals and attempt to use numbers in areas where they are not applicable.

BENEFITS AND PROBLEMS OF “MBO”



❑ Benefits

- **Leader/subordinate efforts are focused on activities that will lead to goal attainment**
- **Performance improved up and down the chain**
- **Motivated people**

❑ Problems

- **Change adversely affects planning**
- **Low morale reduces effectiveness**
- **Lower level goals take precedence**
- **Over-centralized authority limits participation**
- **Paperwork**