

MANAGEMENT BY OBJECTIVES

MBO

What is MBO?

- Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. 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.
- Management by Objectives (MBO) was first outlined by Peter Drucker in 1954 in his book 'The Practice of Management'. In the 90s, Peter Drucker himself decreased the significance of this organization management method, when he said: "It's just another tool. It is not the great cure for management inefficiency... Management by Objectives works if you know **the objectives**, 90% of the time you don't."

Core Concepts of MBO

- 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:
- participate in the **strategic planning** process, in order to improve the implementability of the plan, and
- implement a range of performance systems, designed to help the organization stay on the right track.

Managerial Focus

- MBO 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.

Main Principle of MBO

- The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims. The complete MBO system is to get managers and **empowered employees** acting to implement and achieve their plans, which automatically achieve those of the organization.

Where to Use MBO

- The MBO style is appropriate for **knowledge-based enterprises** when your staff is competent. It is appropriate in situations where you wish to build employees' management and **self-leadership** skills and tap their **creativity**, **tacit knowledge** and initiative. Management by Objectives (MBO) is also used by chief executives of multinational corporations (MNCs) for their country managers abroad.

Setting Objectives

- In Management by Objectives (MBO) systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets. "The principle behind this is to ensure that people know what the organization is trying to achieve, what their part of the organization must do to meet those aims, and how, as individuals, they are expected to help. This presupposes that organization'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."
- "The one thing an MBO system should provide is focus", says Andy Grove who ardently practiced MBO at Intel. So, have your **objectives** precise and keep their number small. Most people disobey this rule, try to focus on everything, and end up with no focus at all.

Setting Objectives

- 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."
- The review mechanism enables leaders to measure the performance of their managers, especially in the key result areas: marketing; **innovation**; human organization; financial resources; physical resources; productivity; social responsibility; and profit requirements.

Balance Between Management and Employee Empowerment

- The balance between management and employee empowerment has to be struck, not by thinkers, but by practicing managers. Turning their aims into successful actions, forces managers to master five basic operations:
- setting objectives,
- organizing the group,
- motivating and communicating,
- measuring performance, and
- developing people, including yourself.

Individual Responsibility

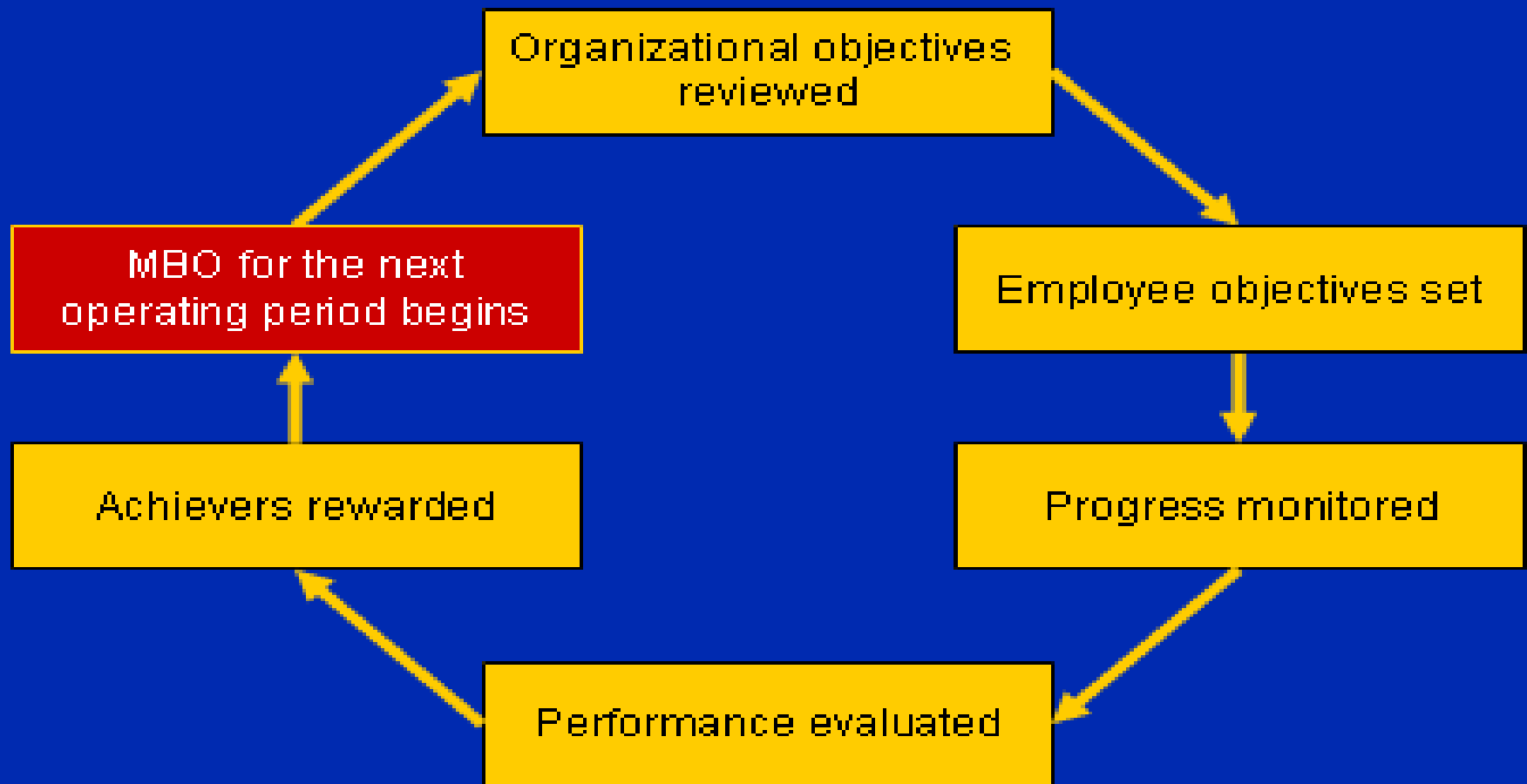
- Management by Objectives (MBO) creates a link between top management's strategic thinking and the strategy's implementation lower down. Responsibility for objectives is passed from the organization to its individual members. It is especially important for knowledge-based organizations where all members have to be able to control their own work by feeding back from their results to their objectives.
- Management by objectives is achieved through self-control, the tool of effectiveness. Today the worker is a self-manager, whose decisions are of decisive importance for results.
- In such an organization, management has to ask each employee three questions:
 - What should we hold you accountable for?
 - What information do you need?
 - What information do you owe the rest of us?

The Five-Step MBO Process



Management by Objectives (MBO)

The Five-Step MBO Process



MBO Principles

- Cascading of organizational goals and objectives
- Specific objectives for each member
- Participative decision making
- Explicit time period
- Performance evaluation and feedback

Types of Objectives

- Routine objectives
- Innovation objectives
- Improvement objectives
- The objectives must be:
 - focused on a result, not an activity
 - consistent
 - specific
 - measurable
 - related to time
 - attainable

MBO Strategy : Three Basic Parts

- All individuals within an organization are assigned a special set of objectives that they try to reach during a normal operating period. These objectives are mutually set and agreed upon by individuals and their managers.
- Performance reviews are conducted periodically to determine how close individuals are to attaining their objectives.
- Rewards are given to individuals on the basis of how close they come to reaching their goals.

Six MBO Stages

- Define corporate objectives at board level
- Analyze management tasks and devise formal job specifications, which allocate responsibilities and decisions to individual managers
- Set performance standards
- Agree and set specific objectives
- Align individual targets with corporate objectives
- Establish a management information system to monitor achievements against objectives

8 Key Result Areas Where Managers Must Pursue Clear Objectives

- Marketing
- Innovation
- Human organization
- Financial resources
- Physical resources
- Productivity
- Social responsibility
- Profit requirements

MBO Advantages & Disadvantages

- **Advantages**

- MBO programs continually emphasize what should be done in an organization to achieve organizational goals.
- MBO process secures employee commitment to attaining organizational goals.

- **Disadvantages**

- The development of objectives can be time consuming, leaving both managers and employees less time in which to do their actual work.
- The elaborate written goals, careful communication of goals, and detailed performance evaluation required in an MBO program increase the volume of paperwork in an organization.