Seventh Semester
Essentials of Management
HSS-401
MBO

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.
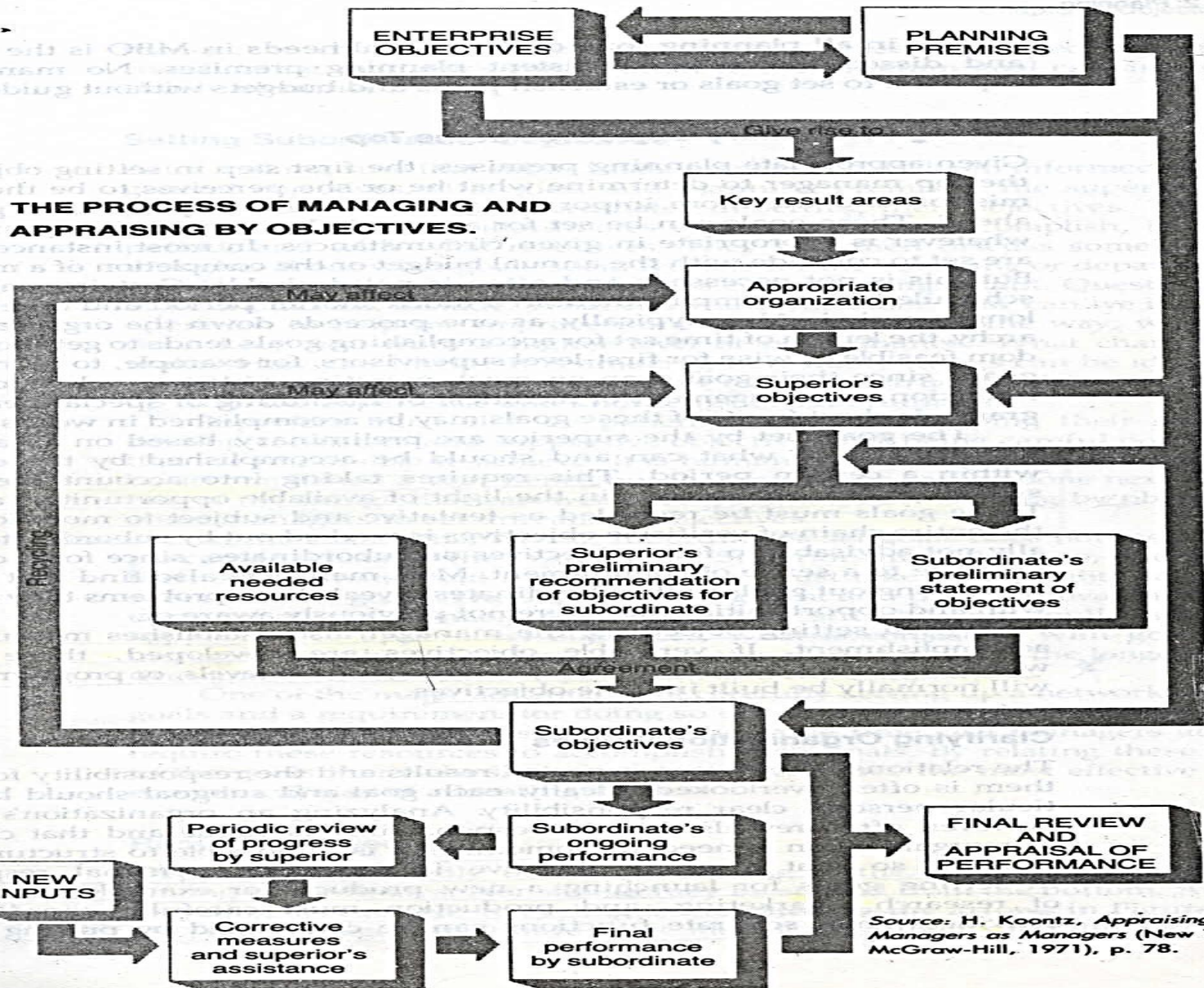
MBO emphasizes on the following :

❖ 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

Figure 4-3

THE PROCESS OF MANAGING AND APPRAISING BY OBJECTIVES.


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ENTERPRISE                              PLANNING
OBJECTIVES                              PREMISES

          Give rise to

                    Key result areas

                    Appropriate
                    organization

   May affect

   May affect        Superior's
                     objectives

Available      Superior's           Subordinate's
needed         preliminary          preliminary
resources      recommendation       statement
               of objectives for    of objectives
               subordinate

Recycling

          Agreement

                Subordinate's
                objectives

Periodic review    Subordinate's        FINAL REVIEW
of progress        ongoing              AND
by superior        performance          APPRAISAL OF
                                        PERFORMANCE
NEW
INPUTS

Corrective         Final
measures           performance
and superior's     by subordinate
assistance
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Source: H. Koontz, Appraising Managers as Managers (New York: McGraw-Hill, 1971), p. 78.

Examples of Nonverifiable and Verifiable Objectives

Nonverifiable objectives	Verifiable objectives
1. To make a reasonable profit	1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To improve communication	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 improve productivity of the production department	3. To increase production output by 5% by December 31 2014 without additional costs and while maintaining the current quality level
4. To develop better managers	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 computer system	5. To install a computerized control system in the production department by December 31, 2014 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**