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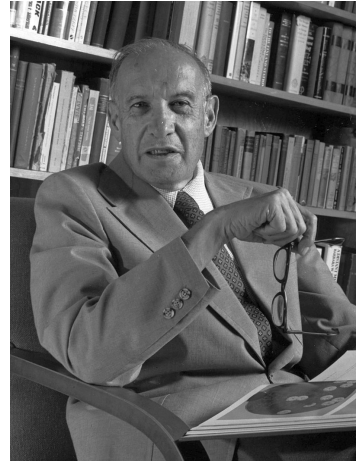
MBO - Management by objectives

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Introduction

- ▶ Developed by Peter F. Drucker in the 1950s
 - ▶ Originally designed and used with business and industries
 - ▶ Cooperative development and agreement of objectives by the manager and the employees
- improve the performance of the organization



Peter F. Drucker

Definition

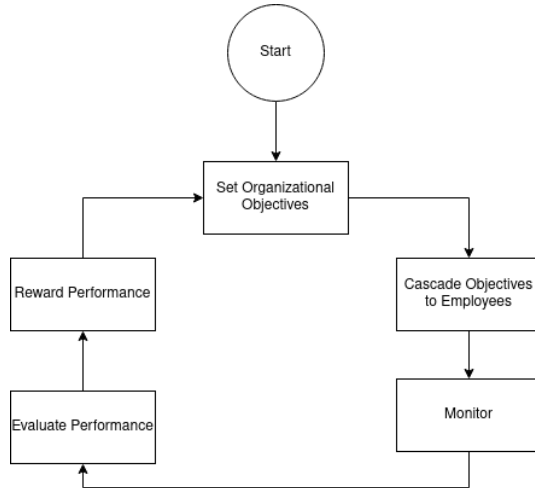
S.K.Chakravarty

“Management by objectives is result-centered, non-specialist, operational managerial process for the effective utilization of material, physical and human resources of the organization by integrating the individual with the organization and organization with the environment.”

Management

- ▶ **functional sense:** activity of company management
 1. **Planning:** analysis of the target/actual state, problem and task definition, goal setting, alternative planning
 2. **Realization:** Organization and coordination of production factors, such as employees and their motivation
 3. **Control:** feedback, target/actual state comparison for further planning and control
- ▶ **institutional sense:** managing body, i.e. the group of leading persons of a company

5-Step-Process of MBO



Requirements

- ▶ Organizational Requirements
- ▶ Leadership Requirements
- ▶ Personnel Requirements
- ▶ Methodological requirements

Requirements

▶ **Organizational Requirements**

- ▶ clearly assigned tasks and functional areas
- ▶ constant conditions
- ▶ allowing scope for action and decision-making
- ▶ information structures that permit actual/target state comparisons
- ▶ clearly communicated overarching goals
- ▶ reviewing goals on a regular basis

▶ Leadership Requirements

▶ Personnel Requirements

▶ Methodological requirements

Requirements

- ▶ Organizational Requirements
- ▶ **Leadership Requirements**
 - ▶ willingness to adopt a cooperative management style
 - ▶ trusting relationship between management and employees
 - ▶ management supports the management strategy
 - ▶ management is convinced of the usefulness of MBO
- ▶ Personnel Requirements
- ▶ Methodological requirements

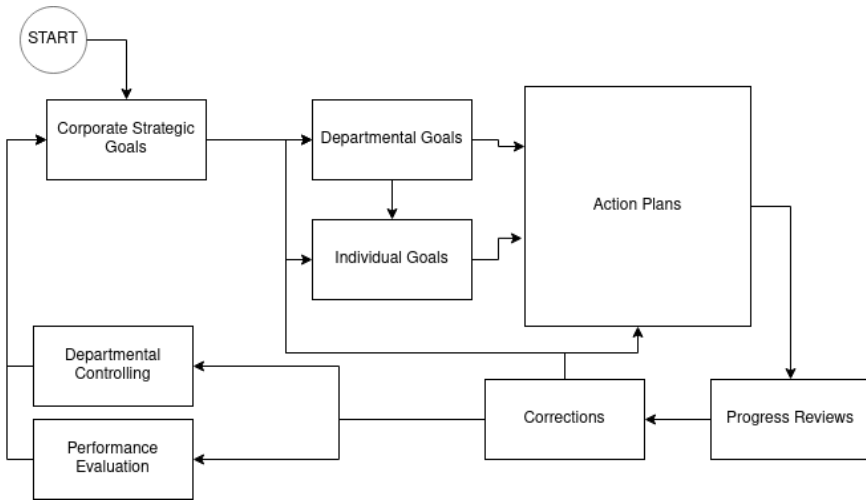
Requirements

- ▶ Organizational Requirements
- ▶ Leadership Requirements
- ▶ **Personnel Requirements**
 - ▶ ***variable factors***: Qualification, self-efficacy expectations, goal commitment, feedback, task complexity, general conditions.
 - ▶ ***stable factors***: internal control beliefs, strong achievement motive, strong action orientation, low procrastination tendency, high self-control ability, strong desire for autonomy
- ▶ Methodological requirements

Requirements

- ▶ Organizational Requirements
- ▶ Leadership Requirements
- ▶ Personnel Requirements
- ▶ **Methodological requirements**
 - ▶ a procedure for agreeing on objectives
 - ▶ evaluation criteria for the performance appraisal
 - ▶ evaluation procedure
 - ▶ consistent evaluation strategy

Workflow



Formulation of objectives

▶ Target/actual comparison

1. What is the initial situation?
→ deficiencies and a need for optimization
2. What is the desired end state?
3. How can the desired end state be achieved?

Formulation of objectives

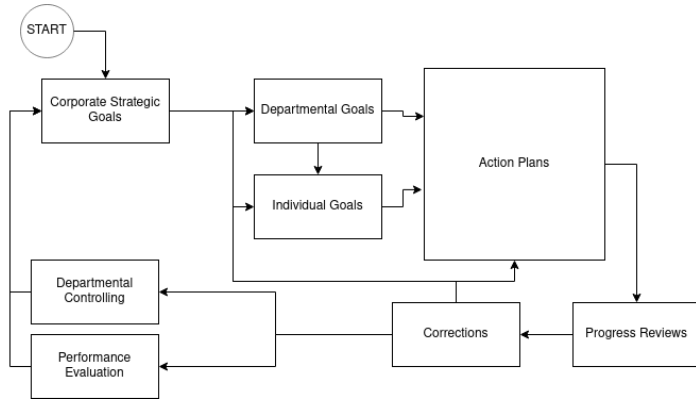
- ▶ **SMART-Method** is recommended for effective objectives formulation
 - ▶ **S**: specific (the goal is clearly defined)
 - ▶ **M**: measurable (the goal is measurable, or contains measurability criteria)
 - ▶ **A**: activating (the goal is desirable)
 - ▶ **R**: realistic (the goal is achievable under the given conditions)
 - ▶ **T**: time-bound (the goal has a fixed time frame)

Formulation of objectives

- ▶ recorded employee interview between the manager and the employee
 - ▶ discuss the initial situation
 - ▶ reveal their ideas
 - ▶ goals to achieve the desired end state
 - ▶ define indicators to measure success
 - ▶ set priorities
 - ▶ discuss bonuses
- ▶ Creation of an action plan
 - ▶ contains interim goals (*Milestones*)
 - ▶ Milestone meetings to monitor success or correct goals

Progress Reviews

- ▶ Milestone meetings
- ▶ Target / actual comparison based on
 - ▶ Action Plan
 - ▶ Employee interview
- ▶ Corrections necessary?



Progress Reviews

- ▶ **Prerequisites:**

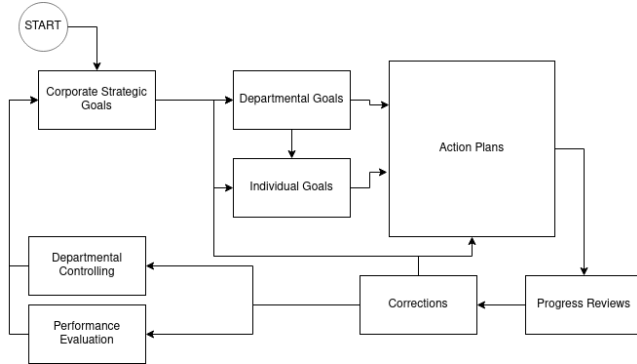
- ▶ Communication skills and empathy

- ▶ **Requirements:**

- ▶ precise clarification of mutual expectations
 - ▶ negotiation of adequate performance contributions
 - ▶ resolving conflicts of interest
 - ▶ support and advice when problems arise
 - ▶ joint and goal-oriented work on problem solutions
 - ▶ constructive and honest feedback

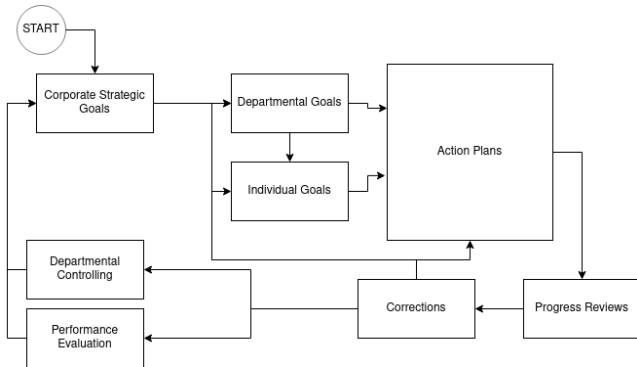
Performance Monitoring

- ▶ Performance Evaluation
 - ▶ Appraisal interview
 - ▶ based on Progress Reviews
 - ▶ measured by defined indicators
- ▶ Departmental Controlling
 - ▶ Optimization of future planning periods



Performance Evaluation

- ▶ Fulfillment of the objectives
 - ▶ Receipt of the predefined bonus, salary increase, ...
- ▶ Non-fulfillment of the objectives
 - ▶ framework adjustments, goal replacement, employee's dismissal



Advantages

- ▶ Improved performance through results orientation
- ▶ Higher employee motivation
- ▶ Clear roles and distribution of tasks
- ▶ Better results through continuous exchange
- ▶ Easier performance and success control through measurable goals
- ▶ Employee identification with company
- ▶ Relief for managers
- ▶ Freedom of design for employees
- ▶ Promotion of employees' own initiative and sense of responsibility
- ▶ Transparent goals

Disadvantages

- ▶ Action plans and milestone meetings are cost-intensive
- ▶ Opportunities are overlooked because they were not part of the goal agreement
- ▶ Increased pressure on employees to perform
- ▶ Employees only dedicate themselves to achieving goals and cooperation between employees suffers
- ▶ Control of employees necessary
- ▶ Risk that the quantity of goals achieved takes precedence over quality
- ▶ Excessive demands on employees
- ▶ Communication problems
- ▶ Incentive system must be created

Outlook

- ▶ MBO laid the foundation for Objectives and Key Results (OKRs)
 - ▶ developed by Intel co-founder Andy Grove
- ▶ OPTIMAL MBO
 - ▶ optimization of the existing components of MBO
 - ▶ additional components added
 - ▶ business strategy
 - ▶ financial performance
 - ▶ incentive system

MBO vs OKR

MBO

- ▶ quantitative goal setting
 - ▶ Focus on result
- ▶ Goals setting and goal measurement once a year
- ▶ Milestone meetings
- ▶ Incentive system
 - ▶ Focus is on the number of achieved goals

OKR

- ▶ qualitative goal setting
 - ▶ Focus on the process of achieving goals
- ▶ Goals setting and goals measurement per quarter (OKR cycle)
- ▶ weekly meetings with objective adjustment
- ▶ rather no incentive system
 - ▶ Approach to goals more important than result → ambitious and experimental

MBO vs OKR

- ▶ **MBO** ensure structure, consistency and control in the company's operations
⇒ more classical management philosophy (Planning, management, control)
- ▶ **OKRs** primarily promote flexibility, creativity and collaboration in companies
⇒ Role of the manager rather understood as a coach

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Thank you! Questions ?

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