MANAGEMENT BY OBJECTIVES

Franziska Görg

May 18, 2021

1 Introduction

On the one hand, management refers to the activity of company management in the functional sense, and on the other hand to the managing body, i.e. the group of leading persons of a company in the institutional sense [1]. If management is viewed as a purposeful activity, the management cycle typically goes through the following phases:

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

Due to the increasing complexity of markets, structures and processes, some management methods have been developed in the last century. So-called management principles serve to maintain a uniform line in the management of employees. Among these, "management-by" techniques exist, such as the "management by objectives" (MBO) management tool discussed here.

By setting principles for management behavior, it is possible to systematize corporate management and ensure a way of controlling corporate processes while at the same time meeting the expectations of the company and its employees.

In the strategic management model "Management by Objectives" developed by Peter F. Drucker in the 1950s, the focus is on the cooperative development and agreement of objectives by the manager and the employees in order to improve the performance of the organization [2] [3].

According to 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” [11].

2 5-Step-Process

The MBO process consists of five basic steps, as Figure 2 illustrates.

Given an overarching goal, such as increasing the company’s profits, individual goals are derived with the employees, with the measures required to achieve the individual goals, such as the use of advertising, now being left to the respective responsible employees [4].

At this point, the manager takes on a controlling role, whereby the control is accompanied by a performance evaluation of the employees [5]. This performance evaluation can be understood as an incentive system, since it also holds potential for professional development, such as a salary increase. However, the receipt of premiums or bonuses are also conceivable as incentive systems and are distributed as soon as the employee has achieved his or her goal.

As a result, employees are motivated to work on solving problems. Therefore the application of "management by objectives" increases the creativity, motivation and identification of employees with their company. In his controlling role, the manager is thus in constant exchange with his employees and also supports them in finding solutions when problems arise.

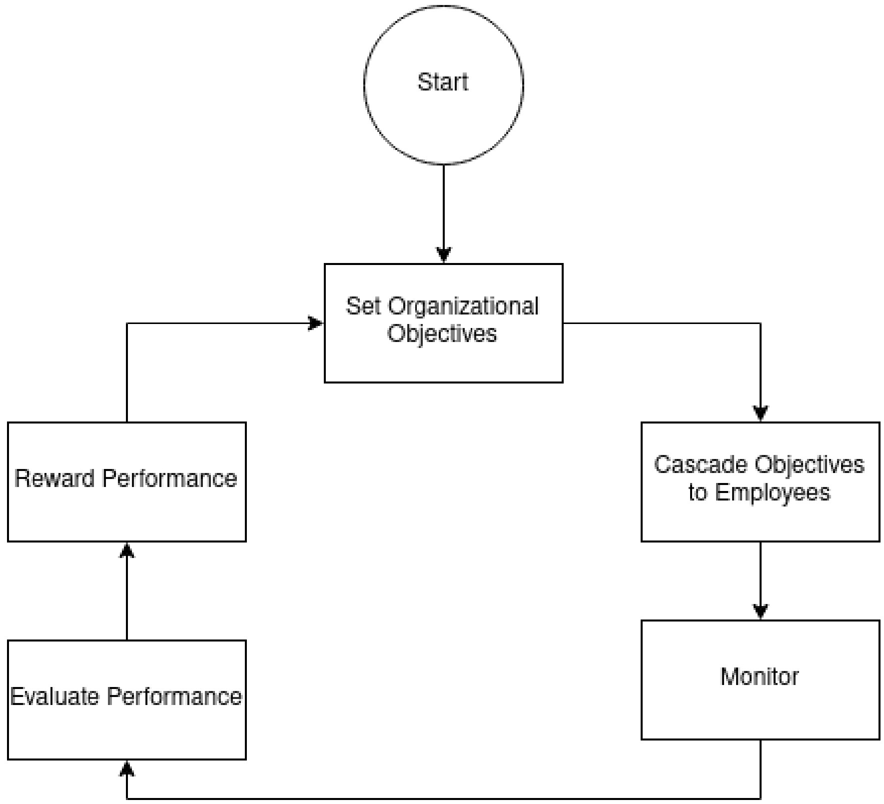

Figure 1: MBO process

Furthermore, management by objectives may be regarded as a flexible model, since control is also related to the objectives themselves. Here, it is checked whether the objectives are still appropriate and relevant for the time or whether they may need to be adjusted.

3 Requirements

According to Bollendorf [5], the successful application of MBO requires leadership, personnel and methodological prerequisites, as well as certain organizational structures.

- **Organizational Requirements**: Tasks and functional areas must be clearly assigned. In terms of target agreement, the framework conditions must be kept constant, allow scope for action and decision-making, and have information structures that permit actual/target state comparisons. In particular, the overarching corporate goals should be clearly communicated, and the goals must also be regularly reviewed, for example, to assess whether they are still up to date and whether adjustments need to be made.
- **Leadership Requirements**: A trusting relationship between management and employees plays a significant role. Here, it is essential that the management supports the management strategy and is convinced of its usefulness. The willingness to adopt a cooperative management style is thus essential, but often lacking in practice according to Dinesh and Palmer [7].
- **Personnel Requirements**: The implementation of the measures by the employees to achieve the goals depends on variable factors on the one hand. On the other hand, it depends on stable personality factors of the employees, based on the personality model published by Watzka [8] called Big Fire with its personality traits called the Big Six.
  - *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**: In addition to a procedure for agreeing on objectives, evaluation criteria for the performance appraisal must be selected. A consensus must also be reached on the evaluation procedure, which should be carried out consistently in practice in order to avoid conflicts.

4 Workflow

A set of action sequences has proven successful in implementing MBO, as Figure 2 illustrates.

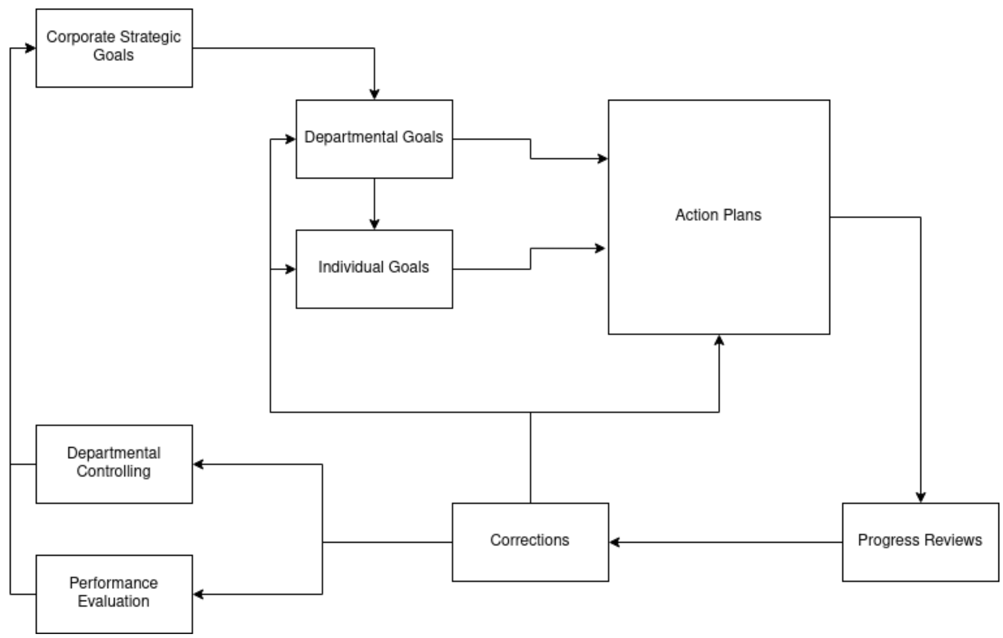

Figure 2: Workflow in MBO

After analyzing the initial situation, which usually shows deficiencies and a need for optimization, objectives must be formulated in order to achieve the desired, improved end state. For effective objective formulation, Doran [6] calls for orientation on the SMART method, which comes from quality management and describes the following criteria for formulating effective objectives:

- **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)

Ultimately, the concrete formulation of goals takes place in a recorded appraisal interview, in which the manager and the employee discuss the initial situation, reveal their ideas and discuss which goals are to be met in order to achieve the desired end state. Concrete agreements are made and indicators are defined to measure success. It is also important to set priorities and discuss possible bonuses. Through an action plan, that contains interim goals, so-called milestones, it is possible to describe what is to be achieved at what point in time and what the consequences will be if the goals are not achieved.

In interim meetings or milestone meetings, the supervisor can realize his controlling role and, for example, look for solutions together with the employee in the event of deviations in the realization of objectives or, if necessary, make corrections to the objectives.

In an appraisal interview, manager and employee reflect on the overall process from goal agreement to goal achievement, which is accompanied by a performance evaluation. This is measured against the previously defined indicators. If the requirements are successfully met, the employee receives his or her defined bonus.

In case of target failure, the reasons are discussed and, if necessary, leads to adjustments in the framework conditions or, under certain circumstances, to target replacement. At this point it should be noted that the failure to meet the target may also result in the employee's dismissal.

5 Conclusion

The following table 1 presents some advantages and disadvantages that occur when using management by objectives.[4]

Advantages	Disadvantages
Improved performance through results orientation	The sense of the goals is often not questioned and goals are no longer adjusted because the preparation of action plans and the conducting of milestone meetings are cost-intensive.
Higher employee motivation through participation and delegation of responsibility. According to Schermerhorn [10], individuals work harder to achieve goals if they are seen as their own goals.	Opportunities are overlooked because they were not part of the goal agreement.,
Clear roles and distribution of tasks, everyone knows what is expected of them.	Increased pressure on employees to perform.
Better results through continuous exchange.	Employees only dedicate themselves to achieving goals and cooperation between employees suffers.
Easier performance and success control through measurable goals.	Control of employees necessary.
Employee identification with company results in stronger commitment to the company.	Increased time required, especially for target agreement in the first cycle [9].
Relief for managers.	Risk that the quantity of goals achieved takes precedence over quality.
Freedom of design for employees.	Excessive demands on employees.
Promotion of employees' own initiative and sense of responsibility.	Communication problems, employee did not understand goals correctly.
Transparent goals	Incentive system must be created so that employees want to achieve the goals.

Table 1: Advantages and Disadvantages of MBO

However, it should be noted that some disadvantages can be eliminated if the system is properly implemented and thoroughly planned. Thus, MBO is suitable for different types of organizations and supports administrators with regard to the management functions of planning, organizing, leading and controlling. On the one hand, the use of MBO is discussed in non-profit organizations such as libraries, universities or governments, and on the other hand, it is applied in profit-oriented organizations, such as Indian companies like Glaxo Limited, Blue Star or Grind Lays Bank [5], [11], [12].

MBO also laid the foundation for other important concepts, such as the OKR management system, which is strongly based on the MBO and SMART methods. Developed by Intel co-founder Andy Grove, it was consequently first used at Intel.

With OPTIMAL MBO, the classic MBO has been superseded and represents a newer approach. Here, optimizations of the existing components were carried out and some additional components relating to business strategy, financial performance and the incentive system were added [13].

References

[1] Dr. Peter Haric, Gabler Wirtschaftslexikon , Management, https://wirtschaftslexikon.gabler.de/definition/management-37609/version-261043, aufgerufen am 05.05.21

[2] Management by Objectives, https://www.bwl-lexikon.de/wiki/management-by-objectives/ , aufgerufen am 06.05.21

[3] Management by Objectives, https://www.onpulson.de/lexikon/management-by-objectives/ , aufgerufen am 06.05.21

[4] Management by Objectives einfach erklärt, https://studyflix.de/wirtschaft/management-by-objectives-2435 , aufgerufen am 06.05.21

[5]Bollendorf, N. (2018). Management by objectives: Zielvorgaben und Zielvereinbarungen als Führungswerkzeug in der Bibliothek. Perspektive Bibliothek, 7(1), 81–114

[6] Doran, G. T. (1981). There‘s a S.M.A.R.T. way to write management‘s goals and objectives. Management Review, 70 (11), (AMA FORUM), 35–36.

[7] Dinesh, D. Palmer, E. (1998). Management by objectives and the Balanced Scorecard: Will Rome fall again?. Management Decision , 36, 363-369.

[8]Watzka, K. (2017). Zielvereinbarungen in Unternehmen. Grundlagen, Umsetzung, Rechtsfragen. Wiesbaden: Springer. , S. 185–209

[9] Megginson, L. C., Mosley, D. C., Pietri, P. H. (1989). Management: concepts and applications. HarperCollins Publishers.

[10] Schermerhorn, J. R. (1989). Management for productivity (3rd ed.). John Wiley Sons.

[11] Eliganur, B. (2020). EMERGING TRENDS IN COMMERCE: MANAGEMENT BY OBJECTIVES. Journal of emerging technologies and innovative research.

[12] Rodgers, R., Hunter, J. (1992). A Foundation of Good Management Practice in Government: Management by Objectives. Public Administration Review, 52(1), 27-39. doi:10.2307/976543

[13] Gotteiner, Sharon (2016). "The OPTIMAL MBO". European Accounting and Management Review Vol. 2, Issue 2, pp. 42-56.