

## **Unit 5**

### **Management by Objective**

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##### **Introduction**

Management by Objectives, often shortened to MBO, is simply one of several management models that have been used, and are still being used even today. This technique allows management to focus on the attainable goals of the organization, and to work towards achieving the best possible results, using the resources available to the organization at that point in time.

The goal of this model is to improve the overall performance of an organization by defining its objectives clearly, and these objectives have to have been agreed to completely by the management, the employees, and the other members of the organization. In other words, it operates on the assumption that, if the goals of the organization are aligned with that of the employees, then achieving these goals through work performance will be more successful.

The origins of MBO can be traced back to 1954, when management expert Peter Drucker first introduced the term and the concept in his book, entitled “The Practice of Management”. Basically, he described it as an environment where management and employees join forces and work together to set and monitor the goals of the organization for a certain period.

##### **Meaning and definition**

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization.

It refers to the process of setting goals for the employees so that they know what they are supposed to do at the workplace. Management by Objectives defines roles and responsibilities for the employees and help them chalk out their future course of action in the organization.

- **Need for Management by Objectives (MBO)**

- The Management by Objectives process helps the employees to understand their duties at the workplace.
- KRAs are designed for each employee as per their interest, specialization and educational qualification.
- The employees are clear as to what is expected out of them.

- Management by Objectives process leads to satisfied employees. It avoids job mismatch and unnecessary confusions later on.
- Employees in their own way contribute to the achievement of the goals and objectives of the organization. Every employee has his own role at the workplace. Each one feels indispensable for the organization and eventually develops a feeling of loyalty towards the organization. They tend to stick to the organization for a longer span of time and contribute effectively. They enjoy at the workplace and do not treat work as a burden.
- Management by Objectives ensures effective communication amongst the employees. It leads to a positive ambience at the workplace.
- Management by Objectives leads to well defined hierarchies at the workplace. It ensures transparency at all levels. A supervisor of any organization would never directly interact with the Managing Director in case of queries. He would first meet his reporting boss who would then pass on the message to his senior and so on. Every one is clear about his position in the organization.
- The MBO Process leads to highly motivated and committed employees.
- The MBO Process sets a benchmark for every employee. The superiors set targets for each of the team members, each employee is given a list of specific tasks.

### ➤ Features of MBO

#### **1. Goal Orientation:**

MBO focuses on the determination of unit and individual goals in line with the organizational goals. These goals define responsibilities of different parts of the organisation and help to integrate the organisation with its parts and with its environment. MBO seeks to balance and blend the long term objectives (profit, growth and survival of the firm with the personal objectives of key executives. It requires that all corporate, departmental and personal goals will be clearly defined and integrated.

#### **2. Participation:**

The MBO process is characterized by a high degree of participation of the concerned people in goal setting and performance appraisal. Such participation provides the opportunity to influence decisions and clarify job relationships with superiors, subordinates and peers.

It also helps to improve the motivation and morale of the people and results in role clarity. Participative decision-making is a prerequisite of MBO. MBO requires all key personnel to contribute maximum to the overall objectives.

#### **3. Key Result Areas:**

The emphasis in MBO is on performance improvement in the areas which are of critical importance to the organisation as a whole. By identification of key result areas (KRAs), MBO ensures that due attention is given to the priority areas which have significant impact on performance and growth of the organisation.

Goals of all key personnel are properly harmonized and they are required to make maximum contribution to the overall objectives. Key and sub Key areas are identified for each function as shown in the following example:

➤ **Finance (Key Area)**

**Sub-Key Areas:**

- (a) Cash flow
- (b) Dividend Policy
- (c) Debt-equity Ratio
- (d) Sources of Funds

The role of each department towards the Key and sub-Key areas is also specified.

**4. Systems Approach:**

MBO is a systems approach of managing an organisation. It attempts to integrate the individual with the organisation and the organisation with its environment. It seeks to ensure the accomplishment of both personal and enterprise goals by creating goal congruence.

**5. Optimization of Resources:**

The ultimate aim of MBO is to secure the optimum utilization of physical and human resources of the organisation. MBO sets an evaluative mechanism through which the contribution of each individual can be measured.

**6. Simplicity and Dynamism:**

MBO is a non-specialist technique and it can be used by all types of managers. At the same time it is capable of being adopted by both business and social welfare organizations. MBO applies to every manager, whatever his function and level, and to any organisation, large or small.

**7. Operational:**

MBO is an operational process which helps to translate concepts into practice. MBO is made operational through periodic reviews of performance which are future-oriented and which involve self-control.

**8. Multiple Accountability:**

Under MBO, accountability for results is not centralized at particular points. Rather every member of the organisation is accountable for accomplishing the goals set for him.

Multiple centers of accountability discourage 'buck-passing' and 'credit-grabbing'. MBO establishes a system of decentralized planning with centralized control.

### **9. Comprehensive:**

MBO is a 'total approach'. It attaches equal importance to the economic and human dimensions of an organisation. It combines attention to detailed micro-level, short range analysis within the firm with emphasis on macro-level, long range integration with the environment.

#### **➤ Benefits of MBO**

##### **1. Better Managing:**

MBO results in improved and better managing. Better managing requires setting goals for each and every activity and individual and ensuring that these are achieved. MBO not only helps in setting objectives but also ensures balancing of objectives and resources. For establishing objectives there is a need for better and result oriented planning. Management by objectives forces managers to think about planning for results, rather than merely planning activities or work. Managers will devise ways and means for achieving objectives. The objectives also act as controls and performance standards. So MBO is helpful in improving management.

##### **2. Clarifying Organisation:**

MBO helps in clarifying organisational roles and structures. Responsibility and authority are assigned as per the requirements of the tasks assigned. There is no use of fixing objectives without delegating requisite authority. The positions should be built around the key results expected of people occupying them. Implementation of MBO will help in spotting the deficiencies in the organisation.

##### **3. Encouraging Personal Commitment:**

The main benefit of MBO is that it encourages personnel to commit themselves for the achievement of specified objectives. In a normal course people are just doing the work assigned to them. They follow the instructions given by the superiors and undertake their work as a routine matter. In MBO the purpose of every person is clearly defined with his or her own consent. People in the organisation have an opportunity to put their own ideas before superiors, discuss the pros and cons of various suggestions and participate in setting the final objectives. When a person is a party for setting objectives then he will make honest endeavor to achieve them. He will feel committed to reach the goals decided with his consent. A feeling of commitment brings enthusiasm and helps in reaching the goals.

#### **4. Developing Controls:**

MBO mechanism helps in devising effective controls. The need for setting controls is the setting of standards and then finding out deviations if any. In MBO, verifiable goals are set and the actual performance will help in finding out the deficiencies in results. Every person is clear about what is expected from him and these standards act as clear cut controls. So controls can easily be devised when MBO is followed.

#### **➤ Drawbacks of MBO**

This system suffers from a number of weaknesses which are discussed as under:

##### **1. Failure to Teach MBO Philosophy:**

The success of MBO will depend upon its proper understanding by managers. When managers are clear about this concept only then they can explain to subordinates how it works, why it is being done, what will be the expected results, how it will benefit participants, etc. This philosophy is based on self direction and self control and aims to make managers professionals.

##### **2. Failure to Give Guidelines to Goal setters:**

If the goal setters are not given proper guidelines for deciding their objectives then MBO will not be a success. The managers who will guide in goal setting should themselves understand the major policies of the company and the role to be played by their activity. They should also know planning premises and assumptions for the future. Failure to understand these vital aspects will prove fatal for this system.

##### **3. Difficulty in Setting Goals:**

The main emphasis in MBO technique is on setting objectives. The setting of objectives is not a simple thing. It requires lot of information for arriving at the conclusions. The objectives should be verifiable so that performance may be evaluated. Some objectives may not be verifiable, precaution should be taken in defining such objectives. The objectives should not be set casually otherwise MBO may prove liability for the business.

##### **4. Emphasis on Short Term Objectives:**

In most of the MBO programs there is a tendency to set short-term objectives. Managers are inclined to set goals for a year or less and their thrust is to give undue importance to short term goals at the cost of long term goals. They should achieve short term goals in such a way that they help in the achievement of long term goals also. There may be a possibility that short term and long term objectives may be incompatible because of specific problems. So proper emphasis should be given to both short term and long term objectives.

## **5. Danger of Inflexibility:**

There is a tendency to stick to the objectives even if there is a need for modification. Normally objectives will cease to be meaningful if they are often changed, it will also be foolish to strive for goals which have become obsolete due to revised corporate objectives or modified policies.

### **➤ Process of MBO**

The 6 steps of the MBO process are;

1. Define organizational goals
2. Define employees objectives
3. Continuous monitoring performance and progress
4. Performance evaluation
5. Providing feedback
6. Performance appraisal

Let's briefly look at each of these;

#### **1. Define Organizational Goals**

Goals are critical issues to organizational effectiveness, and they serve a number of purposes. **Organizations can also have several different kinds of goals**, all of which must be appropriately managed.

And a number of different kinds of managers must be involved in setting goals. The goals set by the superiors are preliminary, based on an analysis and judgment as to what can and what should be accomplished by the organization within a certain period.

#### **2. Define Employees Objectives**

After making sure that employees' managers have informed of pertinent general objectives, strategies and planning premises, the manager can then proceed to work with employees in setting their objectives.

The manager asks what goals the employees believe they can accomplish in what time period, and with what resources. They will then discuss some preliminary thoughts about what goals seem feasible for the company or department.

#### **3. Continuous Monitoring Performance and Progress**

MBO process is not only essential for making line managers in business organizations more effective but also equally important for monitoring the performance and progress of employees.

For monitoring performance and progress the followings are required;

- i. Identifying ineffective programs by comparing performance with pre-established objectives,
- ii. Using **zero-based budgeting**,
- iii. Applying MBO concepts for measuring individual and plans,
- iv. Preparing long and short-range objectives and plans,
- v. Installing **effective controls**, and
- vi. Designing a sound organizational structure with clear, responsibilities and decision-making authority at the appropriate level.

#### **4. Performance Evaluation**

Under this MBO process performance review is made by the participation of the concerned managers.

#### **5. Providing Feedback**

The filial ingredients in an MBO program are continuous feedback on performance and goals that allow individuals to monitor and correct their own actions.

This continuous feedback is supplemented by periodic formal appraisal meetings in which superiors and subordinates can review progress toward goals, which lead to further feedback.

#### **6. Performance Appraisal**

**Performance appraisals** are a regular review of employee performance within organizations. It is done at the last stage of the MBO process.

### **➤ Guidelines for setting effective objectives**

#### **1. Top Management Support and Commitment:**

It is essential that MBO should have the support and commitment of the top management without this support, MBO can never be a success. The superiors must be willing to relinquish and share the authority with the subordinates. They should consider the subordinates as part of the team for decision making.

#### **2. Clear Goal Setting:**

The objectives should be clearly formulated, must be realistic and achievable. They should be clearly understood by all concerned. The targets should neither be very high nor very low.

#### **3. Participative Goal Setting:**

The objectives and goals should be set with the active participation of the subordinates. There should be effective two way communication between the superior and the subordinates for setting the goals, and for discussing the subordinates problems. These objective must be

properly communicated and clearly understood and accepted by all. MBO works best when the goals are willingly accepted.

#### **4. Overall Philosophy of Management:**

MBO should be treated as an overall philosophy of management and the entire organization. It should not be simply a performance appraisal technique or a divisional process. It should change and replace all the old systems rather than just being added to them.

#### **5. Decentralization of Authority:**

MBO will not be effective if the manager is not willing to delegate sufficient authority to the subordinates. The subordinates who have been given challenging assignments through discussion with the superior must be given adequate authority to accomplish their goals otherwise they will not be willing to accept new assignments and they will resist the setting of clearly defined goals.

#### **6. Revision and Modification Goals:**

The goals must be continuously reviewed and modified, as the changed conditions require, to avoid inflexibility. The review technique should be such that all deviations are caught early and corrected.

#### **7. Orientation and Training of Executives:**

As the philosophy of MBO is to be implemented by the executives, they must be given formal training in understanding the basis as well as the contents of the programme. They must be adequately oriented about the value of MBO. They should be trained in how to set the goals, the methods and tools to achieve these goals, methods of reviews and evaluation of performance and provision to include any feedback that may be given.

#### **8. Integration of MBO Programme:**

MBO cannot be implemented as an isolated programme. It should be accepted as a style of managing and should be synthesized with the organizational climate. All personnel involved should have a clear understanding of their role, authority and their expectations. The system should be absorbed wholly by all departments and members of the organization.

## **Management by Exception**

### **Introduction**

It is a system of identification and communication that signals the manager as to when and where his attention is needed. The main object of this system is to enable the manager to



identify and isolate the problems that call for decision and action, and avoid or ignore or pay less attention to less critical problems which better be handled by his subordinates.

Under this system the manager should receive only condensed, summarised and invariable comparative reports covering all the elements, and he should have all the exceptions to the past averages or standards pointed out, both the specially good and the specially bad exceptions.

### ➤ **Meaning and definition**

Management by exception is the practice of examining the financial and operational results of a business, and only bringing issues to the attention of management if results represent substantial differences from the budgeted or expected amount.

### ➤ **Principles or Importance of Management by exception**

#### **1. Easy Determination of Responsibility:**

The predetermined objectives, standard of job performances, duties and rights are defined and specified in details for all the different Levels of Management, it is easy to ascertain and justify the responsibilities any time in the process of whole operation.

#### **2. Saves Time:**

The Top Levels of Management saves a lot of time after delegating the Authority to perform daily routine jobs and other decisions as per the requirement of the situation or needs. Hereafter, are able to concentrate upon the key issues & policy matter of the organization.

#### **3. Optimum Utilization of Abilities:**

The techniques involved in the Management by Exceptions highlights the total decision making pattern at the different Levels of Management, whereby each respective individual in his capacity according to his managerial level is independent to take decision and is totally responsible for its outcome or action. Hence, the manpower available in the business or industrial unit is expected to utilize all his abilities to the optimum level. In other words the organization is prepared to utilize the abilities of its man power to the maximum extent.

#### **4. Increases Productivity:**

The application of Management by Exceptions techniques, provide Middle & Lower Levels of Management with Authority and Responsibility. This helps them in job performances and makes them feel to be part of the business or industrial unit. The above factor raises their esteem and respective managers or supervisor in turn give their whole hearted efforts for the success of organizations objectives. Ultimately the Productivity & Efficiency of the whole team increases many fold.

## **5. Enhances Research & Developments:**

Management by Exceptions gives emphasis to timely consistent supervision and assessment of activities as well as analyzing the total job performances. Constant supervision facilitates in taking decisions and drawing logical conclusion. This systematic approach supports Research & Developments, thereby helping in reaching to required conclusion and enhancing the overall performances and results.

## **6. Develops Subordinates:**

This technique of Management by Exceptions supports the development of subordinates, as the authority given and also the freedom to take independent decisions or take initiatives to proceed to solve upcoming issues or problems. This unique opportunity of taking independent decisions helps in developing dedicated and efficient individuals or subordinates, capable of giving desired results.

### **➤ Advantages of Management by Exception:**

1. It saves time. Manager attends to real problems at a particular point of time.
2. Concentrated efforts are possible, as this system enables the manager to decide when and where he should pay his attention. It identifies crisis and critical problems.
3. Lesser number of decisions is required to be taken, which enables the manager to go into detail.
4. This enables to increase span of control and increase the activities for a manager.
5. Use of past trends, history and available data can be made fully.
6. It alarms the management about the good opportunities as well as difficulties.
7. Qualitative and quantitative yardsticks are provided for judging the current position.

### **➤ Limitations of Management by exception**

1. It requires a comprehensive observing and reporting system.
2. It increases paper work.
3. The system is silent till the problem becomes critical.
4. Some important factors, like human behaviour, are difficult to measure.