

**M.Ed. SEMESTER-IV**

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**MANAGEMENT BY OBJECTIVES**



Management by objectives (MBO) is now practiced around the world. Yet, despite its wide application, it is not always clear what is meant by MBO.

Some still think of it as an appraisal tool, others see it as a motivational technique, still, others consider MBO a planning and control device.

The concept of 'Management by Objectives' (MBO) was first given by Peter Drucker in 1954 (The Practice of Management'). Management by objectives (MBO) is a comprehensive management system based on measurable and participative set objectives. MBO is now widely practiced all over the world.

But, despite its large-scale application, the meaning of MBO is not yet always clear. To some people, it is an appraisal tool; others consider it as a motivational technique, while others look upon it as an instrument of planning and control.

Management by objectives (MBO) has been defined by Wehrich and Koontz;

The 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.

Emphasis on management by objective was not initiated or originated by any single person. Such management has been dictated by the prudence or common sense of innumerable people.

However, certain individuals have long placed emphasis on management by end results.

MBO is a comprehensive management system based on measurable and participative set objectives. It has come a long way since it was first suggested by Peter F. Drucker in 1954 as a way of promoting managerial self-control.

The common factor that has made Management by Objectives programs so popular in both management theory and practice is the emphasis on objectives that are both measurable and participative setting.

MBO is a management technique for increasing employee involvement in the planning and controlling activities.

Through involvement, it is believed that employee commitment to a planned course of action will be enhanced and performance will be more efficient.

Many variations are found in the practice of MBO.

But basically, it is a process through which goals, plans, and control systems of an organization are defined through collaboration between managers and their subordinates.

Jointly they identify common goals, define the results expected from each individual, and use these measurements to direct the operation of their unit and to assess individual contributions.

In this process, the knowledge and skills of many members of the organization are pressed into service. Instead of telling subordinates about their goals, managers ask subordinates to participate and decide what their goals should be.

After setting up an acceptable set of goals for each employee through a give-and-take collaborative process, the employee is asked to play a major role in devising an action plan for achieving these goals.

In the final stage of the MBO process, employees are asked to develop control processes, to monitor their own performance and to suggest corrective measures if deviations from plans do occur.

The entire process is a combination of planning and control.

### **Features of Management by Objectives**

In the light of the above definitions of MBO, the following features of it can be identified;

1. It is a technique and philosophy of management.
2. Objective setting and performance review are made by the participation of the concerned managers.
3. Objectives are established for all levels of the organization.

4. It is directed towards the effective and efficient accomplishment of organizational objectives.
5. It is concerned with converting an organizational objective into a personal objective on the presumption that establishing personal objectives makes an employee committed which leads to better performance.
6. The basic emphasis of MBO is on objectives. Management by Objectives tries to match objectives with resources.
7. Objectives in MBO provide guidelines for appropriate systems and procedures.
8. A periodic review of performance is an important feature of MBO.
9. MBO provides the means for integrating the organization with its environment, its subsystems, and people.
10. Employees are provided with feedback on actual performance as compared to planned performance.

### **Common Elements of a Management by Objectives Program**

The essence of MBO is participative goal setting, choosing a course of actions and decision-making process. An important part of the MBO is the measurement and comparison of the employee's actual performance with the standards set.

Management by Objective defined as a management system in which specific performance goals are jointly determined by employees and their managers, progress toward accomplishing those goals is periodically reviewed and rewards are allocated on the basis of this progress.

### **Common Ingredients of an MBO Program are;**

1. Goal specificity,
2. Participative decision making,
3. An explicit time period, and
4. Performance feedback.

Let's briefly look at each of these.



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### **1. Goal Specificity**

The objectives in MBO should be concise statements of expected accomplishments. It is not adequate, for example merely to slate a desire to cut costs, improve service or increase quality.

Such desires need to be converted into tangible objectives that can be measured and evaluated for instance to cut departmental costs by 8 percent to improve service by ensuring that all insurance claims processed within 72 hours of receipt, or to increase quality by keeping returns to less than 0.05 percent of sales.

## **2. Participative Decision Making**

In MBO, the objectives are not unilaterally set by the boss and assigned to employees, as is characteristic of traditional objective setting.

Rather, MBO replaces these imposed goals with participative determined goals. The manager and employee jointly choose the goals and agree on how they will be achieved.

## **3. An Explicit Time Period**

Each objective also has a concise time period in which it is to be completed. Typically the time period is three months, six months, or a year.

## **4. Performance Feedback**

The final 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.

## **Benefits of Management by Objectives**

In addition to the fact that goal-orientation of management promotes a sense of motivation among the people within the organization, MBO has certain other benefits which are narrated as under:

### **1. Improves Management**

Objectives cannot be established without planning, and results-oriented planning is the only kind that makes sense. MBO forces managers to think about planning for results, rather than merely planning work or activities.

In order to make objectives realistic, Management by Objectives also requires that managers think of the way they will accomplish results and the resources and assistance they will require.

## **2. Encourages Personal Commitment**

MBO encourages employees to commit themselves to their goals because they have before them clearly defined objectives.

Moreover, the fact that they often participate in goal- setting, improves their commitment to work. As a matter of fact, people become enthusiastic when they control their own fate.

## **3. Clarifies Organization**

MBO forces management to clarify organizational roles and structures. So far as possible, organizational positions are built around the key results expected of the people occupying them.

Moreover, the companies that embark on MBO programs can easily discover deficiencies in their organization and take the necessary steps to rectify.

## **4. Device for Organizational Control and Systematic Evaluation**

It serves as a device for organizational control integration. MBO helps in making a more systematic evaluation of performance.

## **5. Develops Effective Control**

There is no better incentive for self- control and no better way to know the standards for control than having a set of clear goals.

When each and every employee knows what to achieve, control becomes very easy and automatic.

## **6. Improving Productivity**

Management by Objectives helps in improving productivity as the management team concentrates on the important task of reducing costs.

## **7. Motivating the Subordinates**

It stimulates the subordinates' motivation.

## **8. Personal Satisfaction**

It provides a greater opportunity to managers for personal satisfaction on account of participation in objective setting and rational performance appraisal.

## **9. Locating Weak and Problem Areas**

It helps in locating weak and problem areas because of improved communication and organization structure.

## **Weaknesses of Management by Objectives**

With all its advantages, a system of MBO may also have a number of weaknesses, arising out of the inability in applying the MBO concepts judiciously.

The weaknesses are;

1. Failure to teach the philosophy of MBO which is built on concepts of self-control and self-direction that are aimed at making managers as professionals.
2. Failure to give proper guidelines to goal setters by making them well aware of the corporate goals in advance.
3. Difficulty in setting verifiable goals that help in the process of control.
4. Emphasis on short-run goals often jeopardizes the achievement of the long-term objectives.
5. The danger of inflexibility also causes a serious problem since managers may strive for goals that have been made obsolete by revised corporate objectives, changed premises, or modified policies.

## **Limitations of MBO**

Although MBO is generally taken as the panacea for all the problems of an organization, it is not without weaknesses or limitations. The following are the limitations of Management by Objectives;

1. MBO cannot be implemented effectively on account of the difficulty in setting verifiable objectives.



2. The open atmosphere for appropriate objective-setting is absent because of differences in the status of subordinates.
3. Managers may not get time to do even their normal work as MBO involves much paperwork and holding many meetings.
4. There is a tendency on the part of the managers to emphasize short-term objectives and to become more precise in objective setting and accomplishment.
5. MBO is a philosophy of managing an organization in a new way. However, many managers fail to understand and appreciate this new approach.
6. MBO represents the danger of inflexibility in the organization, particularly when the objectives need to be altered. In a dynamic environment, a particular objective may not be valid forever.

The essence of MBO is participative goal setting, choosing the course of actions and decision making. An important part of the MBO is the measurement and the comparison of the employee's actual performance with the standards set.

The MBO should be defined that Management By Objectives is a management system in which specific performance goals are jointly determined by employees and their managers, progress toward accomplishing those goals is periodically reviewed and rewards are allocated on the basis of this progress.

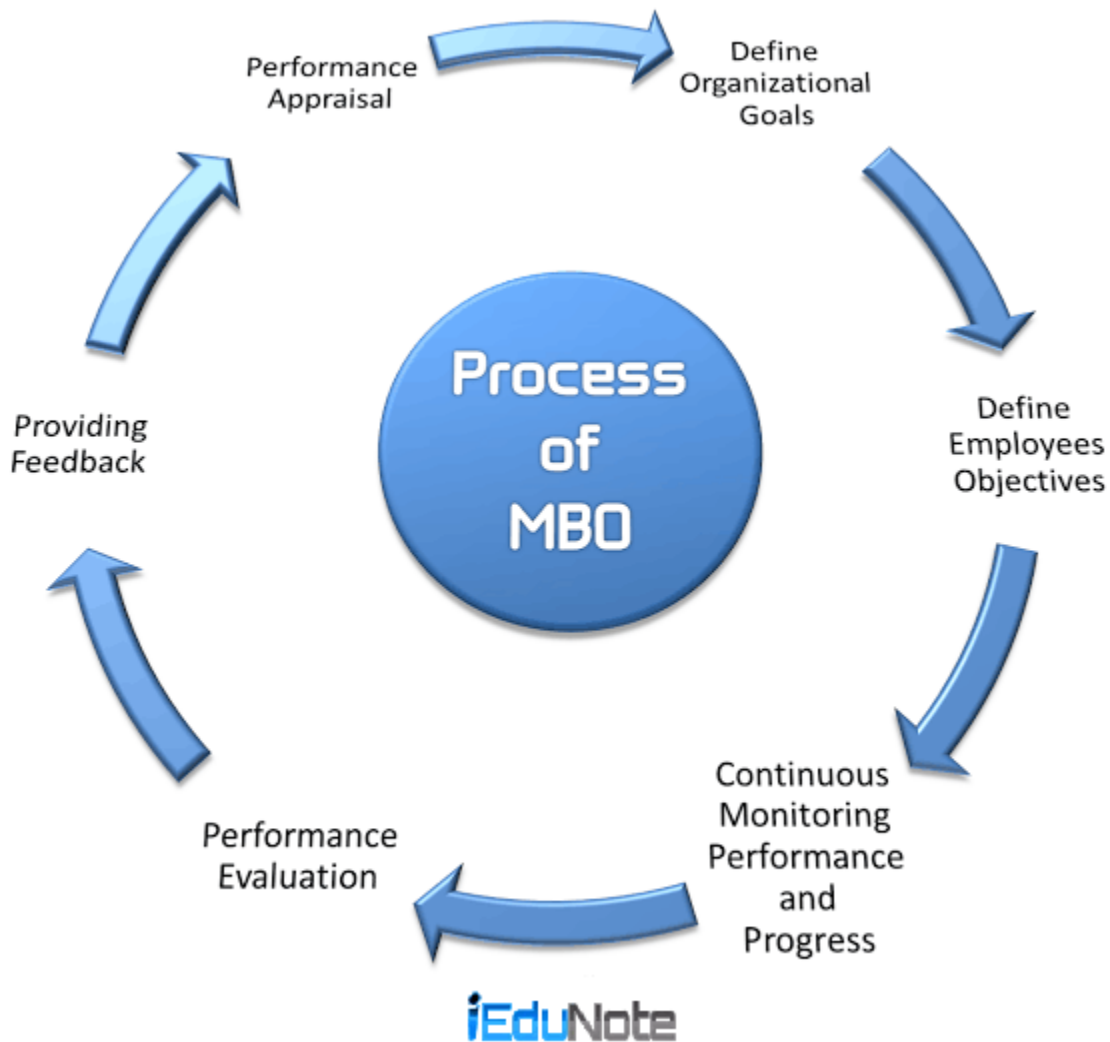
### **Stages of MBO (Management by Objectives) Process**

MBO or management by objectives is defined as a comprehensive managerial system that integrates many key managerial activities in a systematic process and that is consciously directed toward the effective and efficient achievement of organizational and individual objectives.

The practical importance of objectives in management can best be seen by summarizing how successful managing by objectives works in practice.

**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



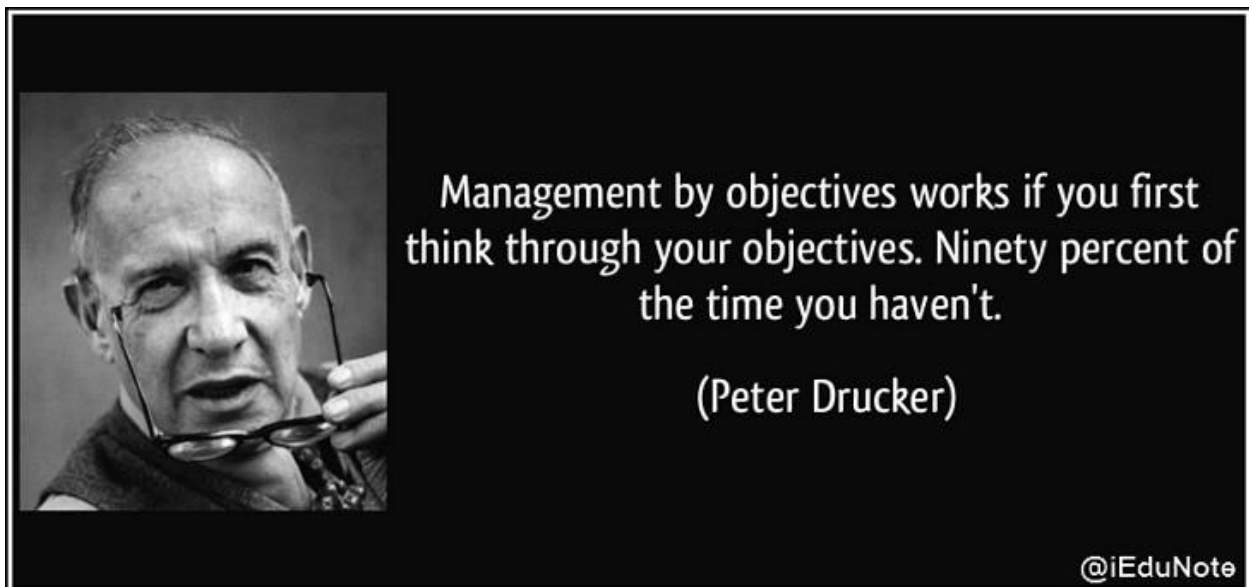
Let's briefly look at each of these;

### **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;**

- Identifying ineffective programs by comparing performance with pre-established objectives,
- Using zero-based budgeting,
- Applying MBO concepts for measuring individual and plans,
- Preparing long and short-range objectives and plans,
- Installing effective controls, and
- 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.