

Common elements of management by objectives commerce essay



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Peter Drucker formulated the term Management by Objectives in 1954 in his book *The Practice of Management*. In the early 1960s, Management by Objectives (MBO) became the fieriest topic in the world of management promising to bring about accountability, profitability and productivity. It became a popular strategic planning tool leading to a proper allocation of resources of all kinds.

The term MBO (Management by Objectives) was actually coined for the first time by Alfred P. Sloan in the early 1950s, though; Drucker was the one flesh out the term and bring it to the central position by comparing and contrasting managerial actions over supervision of activities.

Peter, however, himself decreased its significance in the 90's when he said: “

It's just another tool. It is not the great cure for management inefficiency.

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Management by Objectives (MBO) works if you know the objectives, 90% of the time you don't".

According to Drucker, managers should “ avoid the activity trap” i. e. forgetting their objectives or major purpose due to massive involvement in their regular activities. Rather all managers (not just few top managers) should:

Participate in the strategic planning process, in order to improve the implementation of the plan

Implement a range of performance systems, designed to help the organization stay on the right track.

Common Elements of Management by Objectives (MBO) :

1. Goal Specificity: Firstly specific goals are set which when achieved should bring forward the results that support organizational, operational, tactical, strategic objectives and plan.

2. Participative Decision Making: Goals when set by the participation of subordinates allows them to achieve goals that are difficult. However the goals set must be accepted by the subordinates as it impacts positively from motivation to performance of the employee.

3. Explicit Performance Period: Time period must be set so as to ensure everything works out within the specified time frame. Explicit time period also allows employees to carry out actions in a proper planned manner so as to meet the deadline.

4. Performance Feedback: Periodic performance feedback helps employees evaluate whether they are on target or off target so that they can retain or adjust their behaviour. Their performance is greatly affected in accordance to the quality of feedback provided.

Using Management by Objectives

Peter Drucker outlined the five-step process for MBO shown in figure 1, below. Each stage has particular challenges that need to be addressed for the whole system to work effectively.

<http://www.mindtools.com/media/MBO.jpg>

These steps are explained below:

1. Set or Review Organizational Objectives

MBO starts with clearly defined strategic organizational objectives (see our article on Mission and Vision Statements for more on this.) If the organization isn't clear where it's going, no one working there will be either.

2. Cascading Objectives Down to Employees

To support the mission, the organization needs to set clear goals and objectives, which then need to cascade down from one organizational level to the next until they reach the everyone.

To make MBO goal and objective setting more effective, Drucker used the SMART acronym to set goals that were attainable and to which people felt accountable. He said that goals and objectives must be:

Specific

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Measurable

Agreed (relating to the participative management principle)

Realistic

Time related

For each objective, you need to establish clear targets and performance standards. It's by using these that you can monitor progress throughout the organization. These are also important for communicating results, and for evaluating the suitability of the goals that have been set.

3. Encourage Participation in Goal Setting

Everyone needs to understand how their personal goals fit with the objectives of the organization. This is best done when goals and objectives at each level are shared and discussed, so that everyone understands “ why” things are being done, and then sets their own goals to align with these.

This increases people's ownership of their objectives. Rather than blindly following orders, managers, supervisors, and employees in an MBO system know what needs to be done and thus don't need to be ordered around. By pushing decision-making and responsibility down through the organization, you motivate people to solve the problems they face intelligently and give them the information they need to adapt flexibly to changing circumstances.

Through a participative process, every person in the organization will set his or her own goals, which support the overall objectives of the team, which

support the objectives of the department, which support the objectives of the business unit, and which support the objectives of the organization.

4. Monitor Progress

Because the goals and objectives are SMART, they are measurable. They don't measure themselves though, so you have to create a monitoring system that signals when things are off track. This monitoring system has to be timely enough so that issues can be dealt with before they threaten goal achievement. With the cascade effect, no goal is set in isolation, so not meeting targets in one area will affect targets everywhere.

On the other hand, it is essential that you ensure that the goals are not driving adverse behavior because they have not been designed correctly. For instance, a call centre goal of finishing all calls within seven minutes might be useful in encouraging the staff to handle each call briskly, and not spend unnecessary time chatting. However, it might be that customers' calls were becoming more complex, perhaps because of a faulty new product, and call centre operators were terminating the call after 6 minutes 59 seconds in order to meet their target, leaving customers to call back, frustrated. In this situation, the monitoring process should pick up the shift in the goal environment and change the goal appropriately.

Set up a specific plan for monitoring goal performance (once a year, combined with a performance review is not sufficient!) Badly-implemented MBO tends to stress the goal setting without the goal monitoring. Here is where you take control of performance and demand accountability.

Think about all the goals you have set and didn't achieve. Having good intentions isn't enough, you need a clear path marked by accountability checkpoints. Each goal should have mini-goals and a method for keeping on top of each one.

5. Evaluate and Reward Performance

MBO is designed to improve performance at all levels of the organization. To ensure this happens, you need to put a comprehensive evaluation system in place.

As goals have been defined in a specific, measurable and time-based way, the evaluation aspect of MBO is relatively straightforward. Employees are evaluated on their performance with respect to goal achievement (allowing appropriately for changes in the environment.) All that is left to do is to tie goal achievement to reward, and perhaps compensation, and provide the appropriate feedback.

Employees should be given feedback on their own goals as well as the organization's goals. Make sure you remember the participative principle: When you present organization-wide results you have another opportunity to link individual groups' performances to corporate performance. Ultimately this is what MBO is all about and why, when done right, it can spur organization-wide performance and productivity.

When you reward goal achievers you send a clear message to everyone that goal attainment is valued and that the MBO process is not just an exercise but an essential aspect of performance appraisal. The importance of fair and

accurate assessment of performance highlights why setting measurable goals and clear performance indicators are essential to the MBO system.

Repeat the Cycle

Having gone through this five-stage process, the cycle begins again, with a review of the strategic, corporate goals in the light of performance and environmental monitoring.

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Appraisal by objectives

Appraisal by objectives, the application of MBO techniques to performance appraisal, is not a new concept. This method of personnel evaluation followed closely after Drucker's introduction of MBO. .

The development, application, and results of this technique and MBO are so similar that most articles on MBO would need only be modified to refer to the individual instead of the task and the discussion would remain valid. The objectives of the individual are a function of the objectives of the larger unit of which he is a part; therefore, personal development should be a major part in any MBO program. But appraisal by objectives can also be applied independent of task-oriented MBO.

Many of the benefits of each technique are the same. Organization élan, the spirit of achievement, is based on the integration of organization and employee goals—that is, a congruence between the organization’s objectives and the individual interests and talents. Such a congruence engenders a closer identification of the employee with the system. A climate of achievement is also generated by mutual trust and goal setting between the employee and his immediate manager.

The climate of achievement, like organizational morale, is not a factor that is easily measured, but the resulting productivity and efficiency are readily identified.

As with MBO, a successful program with the communication necessary to achieve desired results requires commitment and dedication. In order for the manager to communicate his expectations effectively, he must invest the time required to learn the perceptions, work values, and objectives of his employees. Through this knowledge, the manager can achieve desired results in productivity by achieving what Drucker terms “ worker-responsibility.” “ Indeed, one of the major contributions of management by objectives is that it enables us to substitute management by self-control for management by domination.” Communication and feedback take many forms in an organization. Informal feedback is just as critical as the formal evaluation process.

Both the organization and the individual require vehicles for accurate and relevant performance feedback. Toward those ends, an organization should

devote time and care to monitoring its performance feedback loops.

Otherwise everyone operates in a void-an organizational fog.

It would be repetitive to review many of the determinants of success or causes of failure for the appraisal by objectives technique since they are the same as those discussed during the review of MBO.

If the planning is unrealistic, the implementation will be disappointing, and the appraisal may then be inadequately descriptive of the employee's qualities. Nevertheless, this approach is not only sound for appraisal purposes, it is or should be a standard operating procedure in fulfilling the management functions of planning, leading, and measuring.