

Mbo program



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Explain how an MBO program works and describe the six steps involved in this type of program. MBO (Management by Objectives) is a process whereby a consensus between managers and employees on business objectives is brought about. The term Management by Objectives was first coined by management Guru Peter Drucker in his book *The Practice of Management* published in 1954. The core of the system is the belief that by making employees active participants in the goal setting process, they are more likely to accomplish the goals. A periodic appraisal of actual employee performance against previously agreed upon standards would indicate the degree to which employees have succeeded in achieving those goals. Employees are also made to understand how their individual contributions influence overall success of business objectives. Drucker and other management experts have identified six steps in the MBO process. The first step is Motivation, whereby employee's inputs are considered and respected in setting goals for each individual. The keywords during this step are 'empowerment', 'job satisfaction' and 'commitment'. By involving themselves directly in the goal setting process, it is believed that employees will show more commitment to the success of the organization. The next step of the process is about ensuring that proper communication and coordination exists between managers and employees so that performance reviews are conducted in an open and transparent manner. By making the goals clear both management and workers can be expected to be on the same page. The six steps involved in MBO can be summarized as follows: Setting the overall business goals; Setting goals pertaining to departments within; Deliberating within departments in order to achieve a consensus; Agreeing upon commonly understood and discussed goals; Setting goals for individual

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employees; and finally Monitoring performance against set goals. A key advantage of the MBO model is that it can be applied across organizational domains such as sales, services, human resources, finance, information technology, etc. This is due to the generic nature of the six steps, whose points find application in all domain contexts. The challenges in implementing this model lie in quantifying employee performance, which is not always easy. The aid of a Management Information System can facilitate this task. The MBO has its set of disadvantages as well. For example, as employees go about achieving their individual goals, the usage of resources that goes toward this can end up being inefficiently used. Moreover, the asymmetry of information between managers and employees can lead to less than optimal goal-setting on part of the latter. To overcome this problem, Edwards Deming suggests reverting to strong leadership instead of employee empowerment. Also, the success of individual objectives may fail to have a synergistic effect if the broader plan of operation is flawed. In other words, individual goal-setting cannot mitigate the disadvantages of an unwieldy business model or a discouraging economic environment.

References: Drucker, Peter F., " The Practice of Management", 1954.

Deming, W. Edwards, " Out of the Crisis", The MIT Press, 1994