

# Development of the mbo concept business essay



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Management by Objectives has been one of the most successful approaches to management to date. The fact that MBO has survived for about twenty years indicates that it is more than just a fashionable technique. What is often overlooked, however, is that MBO has changed considerably over the years. There are still some who think of MBO as an appraisal tool. But, if this narrow, limited view of MBO is taken, then MBO would indeed have serious limitations. On the other hand, if MBO becomes a way of managing, many of the undesirable consequences encountered in appraisal can be avoided.

## **Development of the MBO Concept**

The term “ Management by Objectives” was introduced and popularized by Peter Drucker, who stated that, “ Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business.” In addition, he emphasized the importance of participative goal setting, selfcontrol, and self-evaluation. But Drucker’s idea of MBO was not adopted in its entirety, and MBO was not practiced as a way of managing. Rather, selected aspects were taken and applied to performance appraisal.

The Appraisal Approach. McGregor called attention to the shortcomings of conventional appraisal programs, which focused mainly on personality traits. The manager, mistrusting the validity of the appraisal instrument, resisted because he did not like to judge other human beings like physical objects. Consequently, McGregor suggested anew appraisal format, utilizing Drucker’s MBO concepts. In this approach, the subordinate sets his short-term performance goals for himself. These goals are then discussed further with his superior. Later, the individual’s performance is evaluated against

these goals, but it is primarily self-appraisal. The MBO approach to appraisal was certainly a step in the right direction. However, it dealt with only a small (although important) part of the managerial job.

**Integrating Objectives.** In the middle 1960's, behavioral scientists became interested in the MBO philosophy. They saw MBO as a way of integrating individual and organizational objectives, in which the individual becomes an active participant in the managerial process. Moreover, the underlying premise is not that top management " knows best," but rather, that individuals at all levels are capable of contributing to the success of the organization. Consequently, participation is a key aspect of this orientation. Another characteristic of this MBO approach is the concern not only for organizational objectives, but also personal development objectives. It recognizes that learning does not stop at the time a diploma or degree is earned. Learning is a continuing process. Therefore, developmental and growth objectives are now an important part of the MBO process. Another facet that should be mentioned here is that people in organizations are better educated than ever before. Consequently, they do not want to accept orders blindly; they demand a part of the action; they want to be involved; they want more control over their job and their life; and they also want to know where the company is going, so that they can contribute to the aims of the organization. MBO, which stresses participation, was found to be a means to satisfy these needs. It was recognized that people want to do a good

job and that the needs of the organization and the individual are not necessarily incongruent, and that they can be integrated. Therefore, both

the individual and the organization can benefit from this approach to management.

The Long-Term View. Although the new emphasis on the needs of individuals created a more favourable environment for managing, there were still some problems. One was that the focus was still primarily on shortterm, one-year objectives. Unfortunately, this often resulted in undesirable consequences. For example, individuals, focusing on the one-year cycle, may neglect important decisions necessary for the long-term health of the organization. This points to the need to integrate long range and strategic plans with medium and short-range objectives. The implication of the new orientation had a greater impact than might appear on the surface. Previously, MBO programs were primarily implemented by the personnel departments. It was not unusual to find the top management attitude that MBO is valuable, but only for middle and lower managers. The new orientation and the shift to a more comprehensive approach to MBO (relating it to long-range and strategic plans) demands the attention and involvement of top management. Their commitment has to go beyond the issuance of a policy statement endorsing MBO for the company. Instead, top executives must become active participants in the MBO process. Consequently, MBO welds together not only short-term goals with long-term aims, it also integrates the efforts of managers at all levels of the organization.

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## **Management by Objectives (MBO) Method**

The Management by Objectives (MBO) method is a process in which managers and employees jointly set objectives for the employees,

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periodically evaluate performance, and reward according to the results.

Although it is a three-step process, no standard form is used with MBO, so it is a method. MBO is also referred to as work planning and review, goals management, goals and controls, and management by results.

Why and when do we use the MBO method? The MBO method is one of the best methods of developing employees. Like critical incidents, employees get ongoing feedback on how they are doing, usually at scheduled interval meetings. We can use the MBO method successfully with our employees if we commit to the process and truly involve employees rather than trying to make them believe that our objectives are theirs-accurate measures.

On an organization-wide basis, MBO is not too commonly used as the sole assessment method. It is more commonly used based on the evaluative assessment during the development part of the performance appraisal. One difficult part of MBO is that in many situations, most, if not all, employees will have different goals, making MBO more difficult and time-consuming than using a standard assessment form.

How do we use the MBO method? MBO is a three-step process:

Step 1. Set individual objectives and plans. The manager sets objectives jointly with each individual employee. 26 The objectives are the heart of the MBO process and should be accurate measures of performance results. To be accurate, objectives should be SMART. 27 They need to be Specific, Measurable, Attainable, Relevant, and Time-based. Being specific, measurable, and time-based is fairly easy to determine in a written goal, but being attainable and relevant is more difficult. So we developed a model

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based on the work of Max E. Douglas with two examples in Model 8-1 that we can use when setting objectives for ourselves or with others.

Step 2. Give feedback and evaluate performance. Communication is the key factor in determining MBO's success or failure, and employees should continually critique their own performance. <sup>28</sup> Thus, the manager and employee must communicate often to review progress. <sup>29</sup> The frequency of evaluations depends on the individual and the job performed. However, most managers do not conduct enough review sessions.

Step 3. Reward according to performance. Employees' performance should be measured against their objectives. Employees who meet their objectives should be rewarded through recognition, praise, pay raises, promotions, and so on. <sup>30</sup> Employees who do not meet their goals, so long as the reason is not out of their control, usually have rewards withheld and even punishment when necessary.

### **Advantages:**

The MBO approach overcomes some of the problems that arise as a result of assuming that the employee traits needed for job success can be reliably identified and measured. Instead of assuming traits, the MBO method concentrates on actual outcomes.

If the employee meets or exceeds the set objectives, then he or she has demonstrated an acceptable level of job performance. Employees are judged according to real outcomes, and not on their potential for success, or on someone's subjective opinion of their abilities.

The guiding principle of the MBO approach is that direct results can be observed, whereas the traits and attributes of employees (which may or may not contribute to performance) must be guessed at or inferred.

The MBO method recognizes the fact that it is difficult to neatly dissect all the complex and varied elements that go to make up employee performance.

MBO advocates claim that the performance of employees cannot be broken up into so many constituent parts – as one might take apart an engine to study it. But put all the

parts together and the performance may be directly observed and measured.

## **Disadvantages**

MBO methods of performance appraisal can give employees a satisfying sense of autonomy and achievement. But on the downside, they can lead to unrealistic expectations about what can and cannot be reasonably accomplished.

Supervisors and subordinates must have very good “ reality checking” skills to use MBO appraisal methods. They will need these skills during the initial stage of objective setting, and for the purposes of self-auditing and self-monitoring. Unfortunately, research studies have shown repeatedly that human beings tend to lack the skills needed to do their own “ reality checking”. Nor are these skills easily conveyed by training. Reality itself is an intensely personal experience, prone to all forms of perceptual bias.

One of the strengths of the MBO method is the clarity of purpose that flows from a set of well-articulated objectives. But this can be a source of weakness also. It has become very apparent that the modern organization must be flexible to survive. Objectives, by their very nature, tend to impose a certain rigidity.

## **MBO PROCESS**

This type of managing hasn't been around forever: It's an approach called Management by Objectives; a system that seeks to align employees' goals with the goals of the organization. This ensures that everyone is clear about what they should be doing, and how that is beneficial to the whole organization. It's quite easy to see why this type of managing makes sense – when the parts work in unison the whole works smoothly too. And by focusing on what you're trying to achieve, you can quickly discriminate between tasks that must be completed, and those that are just a waste of valuable time.

<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

Measurable

Agreed (relating to the participative management principle)

Realistic

Time related

Notice the “ A” in SMART is “ agreed.” This is sometimes referred to as “ achievable” but, with MBO, agreement about the goals is a critical element: It’s not enough for the goals and objectives to be set at the top and then handed down. They must flow, or trickle, down through various stages of agreement. The only goal that is going to be met is one that is agreed on. How much easier is to get buy in when the person responsible for achieving the goal had a hand in developing it?

## **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 behaviour 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.

### **Management by objectives is not a technique of performance appraisal, but it denotes a systematic process of performance appraisal**

MBO as an approach which uses objectives as a focal point to improve managerial performance and managerial effectiveness, both at the individual and at the organisational level. These objectives serve to guide, direct, review and measure performance. However, MBO should not be thought of as merely a tool for performance appraisal. It is a far more comprehensive mechanism and provides a framework for organisational and managerial decisions. In the MBO approach while the objectives provide the focal point, the emphasis is on improving the performance and providing better results. This is because MBO is concerned with achieving the objectives as well as the process by which they are achieved. The objectives will necessarily vary with the managerial level at which they are set. Objectives at the level of the managing director will be different from those of a branch manager or the production manager. However, all these objectives are derived from the organisation's overall objectives and in turn are linked to the corporate plan. The fact that MBO allows for distant, intangible organisational objectives to be converted into achievable, personalised objectives (for each level of management) is the reason for its success and popularity. The key concepts in MBO are :

- emphasis on results rather than activities,
- objectives for specific managerial positions,

- participatory or joint objective setting,
- identification of key result areas, and
- establishment of periodic review system.