1. O INTRODUCTION

Management by Objectives (MBO) is the most widely accepted philosophy of management today. It is a demanding and rewarding style of management. It concentrates attention on the accomplishment of objectives through participation of all concerned persons, that is, through team spirit. MBO is based on the assumption that people perform better when they know what is expected of them and can relate their personal goals to organizational objectives. Superior subordinate participation, joint goal setting and support and encouragement from superior to subordinates are the basic features of MBO. It is a result-oriented philosophy and offers many advantages such as employee motivation, high morale, effective and purposeful leadership and clear objectives before all concerned persons.

In order to reach a better understanding about MBO we have analysed its objectives, its principles which refers to the understanding of goals, roles and responsibilities. Furthermore, we have seen the features of MBO in this assignment which inspire workers to reach their target.

The purpose of our assignment is also to see where we use MBO, the steps which are involved in it, the five step model addressed for the whole system to work effectively. The six stages involved in MBO have also been explained, its effectiveness, the importance of MBO in an organization. There are its strengths and weaknesses which have also been explained, the dangers involved in MBO but simultaneously we have examined its precaution as well.

1.1 DEFINITION OF MBO

Management by objective is traceable to the period prior to the middle of this century but it was not until 1954 that it was well articulated and publicized by one of the world’s leading management thinkers in the person of Peter Drucker. Management by objective goes beyond setting annual objectives for organizational units to setting performance goals for individual employees. Management by objectives has become a great deal of discussion, evaluation and research and inspired many similar programs.
Management by objectives refers to a formal set of procedures that begins with goal setting and continues through performance review. Managers and those they supervise act together to set common goals. Each person’s major areas of responsibility are clearly defined in terms of measurable expected results or objectives, used by staff members in planning their work, and by both staff members and their managers for monitoring progress. Performance appraisals are conducted jointly on a continuing basis, with provisions for regular periodic reviews.

The heart of management by objective is the objectives, which spell out the individual actions needed to fulfill the unit’s functional strategy and annual objectives. Management by objectives provides a way to integrate and focus the efforts of all organisation members on the goals of higher management and overall organizational strategy.

Another key to management by objective is its insistence on the active involvement of managers and staff members at every organizational level. Drucker insisted that managers and staff members sets their own objectives or at the very least, be actively involved in the objective setting process. Otherwise people might refuse to co-operate or make only half-hearted efforts to implement someone else’s objectives.

2.0 THEORETICAL FRAME WORK OF THE STUDY

Drucker began by identifying certain inherent structural variable in the work environment that is capable of misdirecting the efforts of management towards the realization of corporate goals. The sources of these are mentioned below:

Over-emphasis on workmanship vis-a-vis goal attainment, so much that professional rivalry and empire building may result.

Opposing views at various level of management arising from differentials in their scope of jurisdiction and pursues corporate goals. Participation is an essential component of an effective management by objective programs. Managers and employees should agree on objectives and should meet periodically to review progress toward the objective. The objective set in the
The process of management by objectives help provide a yardstick for appraisal, compensation and control.

Once the objectives are agreed upon, everyone knows what is expected of him, thereby making appraisal and reward easy and known. What is more, it facilitates control of organizational operations as deviations can be easily identified and corrections made.

**3.0 APPLICATION OF MANAGEMENT BY OBJECTIVE**

To understand how management by objectives can be applied, it is necessary to look at the parts of the process. Management by objective can be divided in multiple steps in many combinations, but three main one will be discussed: organisation objective setting, manager objective setting and objective review.

**Organisation Objective Setting**

Setting objectives is the most difficult step in management by objective. Objective setting looks beyond day-to-day activities to answer the question “what are we trying to accomplish?” This step requires the top managers of an organisation to review the purpose for which the organisation exists. In the military, this may require the view of the mission statement and a discussion of its meaning. This is an important requirement, for periodic review re-emphasizes the continuing need for the existence of the organisation. With this mission in mind, the commander or supervisor and his staff must then set organizational objectives in areas where the unit will concentrate its efforts during the approaching objective setting period.

These objectives are:

1. To provide direction to the entire organisation and
2. To provide guidelines for subordinate-level managers to formulate their objective.

As a result of this organizational objective setting step, Air Force managers showed realize that a mission statement is a goal that defines the continuing purpose of an organisation. That mission statement, however, does not define specific methods of accomplishing the goal stated.
Management by objectives helps formulate these specific methods that are necessary to accomplish the mission.

**Manager Objective Setting**

Each individual manager in the organisation must now determine the objectives for his business. This procedure takes place in three general steps: identifying key result areas, writing objectives, and negotiating with the boss. First the manager must identify the key result areas of responsibility that are assigned to this unit. In other words, just as the commander reviewed the whole organisation in order to set organisation objective, the manager reviews his part of the organisation in order to set his objectives. It is important for the individual business manager to identify the areas of his unit where most of the results are obtained. He will usually find that 20 percent of his area of responsibility will produce 80 percent of his results. It is important that he identify and zero in on these key result areas for management by objective to be effective.

After a manager has identified his key areas of responsibility, he is ready to sit down and write his objectives. The main criteria that he should remember in writing objectives are that they should be specific, measurable, realistic, and result oriented. They should be specific in that there can be no confusion about what is expected. They must be measurable for later accountability. They must be realistic but still challenging. The objectives should be result oriented, concentrating on the output of the organisation and not on its internal activities or procedures.

After the managers objectives have been written, he enters the participative management phase of this technique. The subordinate manager sits down with his boss and they agree on the subordinate’s objective. This requires a realistic commitment on the part of both individuals. The agreement on the objective signifies the approval of the expected results (output) required of the subordinate. Progress toward these results can now be pursued by the subordinate until the requirement is reached or the goal is changed.

**Objective Review**

After the setting of objectives has been agreed upon by the subordinates, manager and his boss, the stage is set for managing by these objectives. This managing process is responsibility of the
subordinate manager, and it is interrupted only by mutually arranged, formal review sessions with the commander. In other words, management by objective requires that each individual have the freedom to perform a well-defined task without interference.

There are two types of objective reviews – intermediate and final. The purpose of the intermediate review is to determine progress and identify problems that stand in the way of accomplishing objectives. Most problems are not foreseeable at the time objectives are written; they appear only when action is taken to accomplish the objectives. The result of this intermediate session should be either to agree on a plan that resolves the blockage of objective accomplishment or change the objectives.

The final review is to determine objective accomplishment. In this session the subordinate’s objectives are reviewed for the entire period. In addition, the session concentrates on the renewal of the objective-setting cycle by establishing a basis from which to plan the objectives for the next period. The superior gains an additional benefit from this session since it provides him with input on which to evaluate the subordinate’s performance. If the focus of the session is on the objectives and it does not break down into personal recrimination of the individual, then the review will be true appraisal of performance, not personality.

4. O TWO MAJOR SCHOOL OF THOUGHT

There are two major schools of thought on how management by objective should be implemented although there is an agreement on its usefulness. The first school of thought, who follows the Drucker analysis, looks at management by objective as an administrative planning tool. The second school of thought, who follows the Mc Gregory emphasis, views management by objective as a method of employee participation, development, and supervision.

The Drucker School bases their appropriate goals in light of the demands of its client and the needs of a changing world. The Mc Gregory School views the implementation of management by objective as a way to provide participation, direction and motivation to employees. There reasons include providing for improvement in supervision.
Management by objective is a systematic approach to management planning and supervision that establishes common goals and objectives that must be achieved and gives the authority and responsibility for achieving the objectives to those who must do the work.

The two major interpretations of management are the human relations and the systems orientations are at least three subsets: management by objectives as a result-oriented administrators, administers development approach and unique sensitivity training program.

The systems-oriented conceptualization of management by objectives does not neglect the human relation’s interpretation, but sees this as only one compound incomplete organization. The entire organisation is perceived as being a goal-seeking mechanism. It is important that all such outcomes be identified, classified and expressed in measurable terms.

Management by objectives becomes the main device in the overall planning and control of all dimensions of the organisation. The relevance, clarity, measurability and feasibility of the statement of objectives are all important to such management systems. It is not only top management that operates in this mode, but also the commitment extends to all administrative levels, from organisation goals to division objectives to operational objectives to performance objectives down to the very specifically targeted objectives where the detail work must be accomplished.

Management by objectives is a participative management style. The manner in which objectives are arrived at can be as important as their quality and reliance. Objectives can and should be jointly determined with full participation from all administrators and other appropriate professional personnel at all levels in the hierarchy.
5.0 THE CORE CONCEPTS OF MBO

MBO is a collaborative process whereby the manager and each subordinate jointly determine objectives for that subordinate. To be successful MBO programs should include commitment and participation in the MBO process at all levels, from top management to the lowest position in the organization. MBO begins when the supervisor explains the goals for the department in a meeting.

The subordinate takes the goals and proposes objectives for his or her particular job. The supervisor meets with the subordinate to approve and, if necessary, modify the individual objectives. Modification of the individual's objectives is accomplished through negotiation since the supervisor has resources to help the subordinate commit to the achievement of the objective. Thus, a set of verifiable objectives for each individual are jointly determined, prioritized, and formalized.

Communication is the key factor in determining MBO's success or failure. The supervisor gives feedback and may authorize modifications to the objectives or their timetables as circumstances dictate. Finally, the employee's performance is measured against his or her objectives, and the employees are rewarded accordingly. It includes: 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.

According to Drucker managers should and avoid the activity trap and getting so involved in their day to day activities that they forget their main purpose or objective. Instead of just a few top-managers, all managers should: participate in the strategic planning process, in order to improve the implementability of the plan, and implement a range of performance systems, designed to help the organization stay on the right track.

The so called "Activity Trap" is one where people get so busy doing things that they forget to ask whether what they doing are the right things. This is an important concept for everyone in an organization to understand. MBO is designed to help avoid it will help the employees understand the goal of making the work that they do more effective.
Management by Objectives (MBO) is a process of agreeing upon objectives within an organization so that management and employees agree to the objectives and understand what they are. Managers must avoid the "activity trap" of being busy with day to day activities; they must remain focused on their purpose. Drucker "management by objectives" (MBO) has been implemented to great effect in many organizations. Recognizing that objectives for MBO must be SMART (Specific, Measurable, Achievable, Relevant, and Time-Specific) is essential to success.

1. S for Specific: They should be specific. In other words, they should describe specifically the result that is desired. Instead of "better customer service score," the objective should be "improve the customer service score by 12 points using the customer service survey."

2. For Measurable: In order to be able to use the objectives as a part of a review process it should be very clear whether the person met the objective or not.

3. A for Achievable: The next important factor to setting objectives is that they be achievable. For instance, an objective which states "100 percent customer satisfaction" isn't realistically achievable. It's not possible to expect that everyone must be 100 percent satisfied with their service. A goal of "12 percent improvement in customer satisfaction" is better—but may still not be achievable if it's assigned to the database developer.

4. R for Realistic: This leads into the next factor—realistic. Realistic objectives are objectives that recognize factors which cannot be controlled. They can be accomplished with the tools that the person has at their disposal.
5. T for Time-based: The final factor for a good objective is that it is time-based. In other words, it's not simply, "improve customer service by 12 percent," it's "improve customer service by 12 percent within the next 12 months."

According to Drucker, managers should adopt the goal of lower-level management, senior managers when the organization established the organization goal, they must be effectively broken down into various departments, as well as the individual sub-goals, the manager under sub-targets in the right lower for assessment of performance management by objectives is the essence of the value-oriented, management by objectives makes the whole company, each department, each person can have in advance a clear quantifiable targets, things they can check the evaluation, and afterwards they can reward and punishment honored to achieve a comprehensive, fair and interactive Management.

MBO is designed to improve the management process and maximize the effectiveness of the members of individual teams. MBO is meant to help the employee assess and prioritize efforts to make certain those efforts are focused on the bottom line and organizational values. The process also helps the team understand what the organization does not value and what it may not need to do any more.

6.0 MANAGEMENT BY OBJECTIVES CHARACTERISTICS

Management by objectives starts with the development of overall goals, which are parcelled through the organisation in a top-down sequence until middle managers and other employees have been assigned some portion of these objectives as their own. The hierarchy of objectives can be developed through a systematic MBO-type system. Each organisation can modify MBO to suit its own needs, but most systems involve the following steps:

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 15 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, and long range integration with the environment.

7.0 MAIN PRINCIPLES OF MBO

The main principle behind MBO is to make sure that everybody within the organisation has a clear understanding of the aims, or objectives of that organisation, as well as awareness of their roles and responsibilities in achieving those aims. The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans, which automatically achieve those of the organisation.

Other principles are as follow:

- Cascading of organisational goals and objectives
- Specific objectives for each member
- Participative decision making
- Explicit time period
- Performance evaluation and feedback.

8.0 FEATURES OF MBO

The management by objectives relates to the enterprise in order to achieve its mission and purpose, according to the firm's environment, from the overall situation, in a period of time, for all levels of organization from top to bottom in setting realistic targets, and corporate levels must be completed within the stipulated time, a management approach.

Some unique features of MBO refers to the clarity of goals – SMART goals is also one of the concepts in conjugation with MBO This means that it is one which is specific, measurable, achievable, realistic, and time bound. Thus all the goals that are decided upon are clear, motivate
the employees and have a connection between organizational as well as personal goals of the workforce.

Management by objectives is to believe that people's enthusiasm and competency-based, business leaders at all levels of the leadership of subordinates, not simply rely on an executive order to force them to buckle down to action, but rather the use of motivation theory to guide employees to develop their own objectives, self-control, and consciously take measures to achieve targets, automatically self-evaluation. Management by objectives inspired by inducing workers consciously to do, its biggest feature is the potential by stimulating the production staff, improve the efficiency of staff to promote the overall business goals.

- **Emphasis on human factors and work factors of harmony and unity**

The target management that it does one in the organization to play a significant role in emphasizing the organization's goals were developed by the thought, emphasizing the lower decomposition of joint consultation and formulation of organizational and individual goals, designed to individual goals with organizational goals combine to stimulate potential employees ability to work and self-realization.

- **Supervision and inspection through to the end**

Management by objectives, the key is management. In the process of management by objectives, the slightest slack and the laissez-faire could mislead great. As a manager, must be ready to track the progress of each goal, identify problems and timely consultation, and timely treatment, the right to take timely remedial measures to ensure the target is running in the right direction.

- **Implementation of the enterprise management by objectives in a few comment**

Enhance corporate performance management by objectives for the development of human resources and sustainable development of enterprises the ability to maintain highly effective, and its value has been recognized by many people in the industry. The objective system configuration set to be is scientific. It should not ignore the qualitative goals. The establishment of index system should be to ensure achievement of objectives as a precondition. On the target
system and the establishment of management indicators, there are one-sided pursuit of indicators to quantify the tendency.

- **Objectives of governance must be authorized by**

According to management by objectives focus on human factors, the core idea, once it became clear business goals, enterprises must be in every person in the same direction, and blend into one, the individual efforts into a collective pool of concerted efforts, to produce a holistic performance, in order to contribute to this common goal, goals can become a reality. The target should be great emphasis on the management of people is always dominant, through the management by objectives authorization, allow enterprises to each unit, each department until every worker to more effectively achieve their objectives and tasks.

- **Commitment to the goals and fulfill**

Management by objectives and business incentives must be combined. Goals set at the same time to obtain a coherent and coordinated from top to bottom, high-level commitment to the grassroots level to support achievement of the goals and objectives of resource input to achieve a variety of awards after the grass-roots level should be high-level commitment to the target recognition and efforts to achieve these goals.

Because management by objectives break the mediocrity of the management team atmosphere, outstanding performance and capacity of the team members and backward is bound to stand out, while strict rules management by objectives and goals to complete the linkage results and incentives to staff at all levels of the larger pressure will translate into a huge motivation, the result is the ability to elevate team performance and the demand increased.

### 9.0 WHERE TO USE MBO?

- The MBO style is appropriate for knowledge-based enterprises when your staff is competent. It is appropriate in situations where you wish to build employees' management and self-leadership skills and tap their creativity and initiative.

- Management by Objectives (MBO) is also used by chief executives of multinational corporations (MNCs) for their country managers abroad.
10.0 STEPS IN INVOLVED MBO

Management by objective is in effect a joint process of objectives setting and a joint appraisal or review of achievement or non-achievement by an executive or manager and his subordinate.

The details of the process are as follows: Riggs J.L et al (1980:502)

a) Clarification and review of the company’s objectives by the top management of the organisation. This implies that the objective might have been set in general terms perhaps by the board of directors. Then the top management must firstly understand clearly what the objectives may be.

b) Further clarification at the departmental level. This involves getting each department to know exactly what is expected to contribute towards the achievement of the corporate objective. This is necessary so as to maintain consistency between the departments and the entire organizational objectives.

c) The manager or supervisor who is equally involved in the process will interview the subordinate or employee to discuss and clarify the purpose of the subordinates job, the key re-suit he must achieve, and the performance standard expected of him to reach.

d) Both of them – the manager and the subordinate will jointly agree on the action plan that the subordinate must follow in trying to reach the goal already set in (c) above.

e) The manager evolves a plan for control information to flow to him to enable him monitor the performance of the subordinate with reference to the agreed objectives. To do this effectively a review period must be set. E.g. three or six months, etc.

f) At the end of the review period set in (e) above both of them will meet again to discuss in a problem-solving manner and examine to what extent the subordinate is achieving his objective.
g) The manager will advise the subordinate on how to build on the strengths revealed in part (f) above, and how to circumvent and overcome the weaknesses if any.

h) On the basis of what has been achieved so far, the key results, action plan, and performance standards will be agreed upon for the forthcoming period. The above explained steps can equally be illustrated diagrammatically.

**THE PATH OF MBO STEPS**

![Diagram of MBO Steps]

Source


From the diagram it can be seen that management by objectives shows a feedback process that requires the definition of corporate objectives from which are derived unit or departmental objectives. The next stage is the discussion and agreement of individual subordinates key result
areas, objectives and action plans. This is followed by review of subordinate, departmental and corporate objectives.

11.0 MBO–OBJECTIVE SETTING

Setting objectives is the most difficult step in MBO. Objective setting looks beyond day-to-day activities to answer the question “what are we trying to accomplish?” Objective setting involves employees at all levels. Top managers set overall corporate objectives that define priorities for middle managers. Middle managers define objectives for the departments and divisions for which they are responsible. Corporate and departmental objectives are used to set objectives for individual employees.

Objectives may be both quantitative and qualitative depending on whether outcomes are measurable. Quantitative goals typically are described in numerical terms, such as “obtain 16 new sales account”, “Hire 3 new financial analysis”, or “Increase the occupancy rate to 80 percent”. Qualitative objectives use terms such as “improve customer service”, “file report promptly”, and “increase minority hiring”. The qualitative statements must be sufficiently precise to permit realistic appraisal and evaluation. EZE J.A (2002:298)

Developing Action Plans: An action plan defines the action needed to achieve the stated objective. Action plans are made for both individuals and for departments. A department may undertake an entirely new work activity because of a new corporate objective.

If a university decides to raise 5 million in donations, the college of arts and sciences will have to start fund raising activities. The action plan would define exactly how fund raising should be performed to achieve the objectives. Likewise, each employee must develop and action plan for achieving his or her personal objectives. Of a marketing manager is given the objective of increasing the sales volume by 6 percent, the following action plan might be undertake:

1. Start a sales discount program for high-volume buyers;
2. Work with sales people to increase sales performance by 5 percent.
3. Seek a 10 percent increase in the advertising budget and
4. Hire one additional sales person.

**Reviewing progress:** A periodic review is important to insure that action plans are working. This review can occur in formally between managers and the subordinates, or the organisation may wish to conduct three, six, and nine. Month reviews during the year. This periodic check up allows managers and employees to see whether they are on target and whether corrective action is necessary.

**Appraising overall performance:** The final step is MBO is to evaluate whether annual objectives have been achieved for both individuals and departments. This appraisal carefully evaluates whether 16 new sales account were obtained, 3 new financial analysts were hired, or the organisation achieved 80 percent occupancy rate. Qualitative objectives, such as filling reports in a timely fashion or increasing minority hiring, also are carefully appraised success or failure to achieve objectives can become part of performance appraisal system and the designation of salary increases and other rewards.

### 11.1 MBO OBJECTIVES

**Types of objectives**

a) **Routine objectives**

Routine objectives are based on tasks or assignments the employee is expected to do on a regular basis. These objectives are generally consistent from one appraisal period to the next and part of the employee’s day-to-day work process.

Routine and project objectives should always be written to reflect performance at the level of a trained, experienced “SUCCESSFUL” employee.
b) **Innovation objectives**

Innovation is the conversion of new knowledge into new products and services. Innovation is about creating value and increasing productivity, and therefore growing your business. Success in business doesn’t come from feeling comfortable. With many markets becoming more and more competitive as a result of new competitors from global or deregulated markets, those who innovate best will win in the future. You need to accept risk, measure performance, and embrace innovation.

In today's technology-driven world, business life cycles have accelerated exponentially, but good innovation management basics always apply. The challenge is to keep a step ahead of changing market conditions, new technologies and human resources issues.

To remain competitive, today's companies need to do more than simply deliver products or services that are better or cheaper than those of their rivals. They must also add features, improve performance, and reduce prices more quickly. They must be faster to launch new lines. To grow, they may need to create entirely new markets and develop venture strategies.

c) **Improvement objectives**

> From a broad topic, one narrows the focus by defining improvement objectives, which are:

- attained by implementing the change package, and
- measured by improvement indicators

Indicator data are collected to measure if change has occurred per specified indicators.
12.0 THE FIVE-STEP IN MBO PROCESS

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. These steps are explained below:

![Figure 1: The Five-Step MBO Process](image_url)

- **Set or review organizational objectives**

MBO starts with clearly defined strategic organizational objectives. If the organization is not clear where it is going, no one working there will be either. The MBO process is to define the organizational objectives. It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. MBO includes ongoing tracking and feedback in the process to reach objectives. Management by objectives is not a new technique. All managers should participate in the strategic planning process, in order to improve the implementability of the plan, and implement a range of performance systems, designed to help the organization stay on the right track.
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

For each objective, the organization need to establish clear targets and performance standards. It is by using these that they 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.

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 do not need to be ordered around. By pushing decision-making and responsibility down through the organization, they 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.

Once the organization, have established what it is that someone is accountable for, they must provide the information and resources needed to achieve results. They must also create a mechanism for monitoring progress towards the goals agreed.

❖ Monitor progress

The goals and objectives are said to be SMART, this means they are measurable. They do not 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 they 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.

❖ Evaluate and reward performance

MBO is designed to improve performance at all levels of the organization. To ensure this happens, the organization 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 important. Employees are evaluated on their performance with respect to goal achievement (allowing appropriately for changes in the environment.). It should 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. Making sure they remember the participative principle: When they present organization-wide results they have another opportunity to link individual groups' performances to corporate performance.

13.0 MBO SIX STAGES

The following steps are involved in MBO

1. Setting of organizational objectives

The first step in MBO is defining organizational objectives. The definition of organizational objectives states why the business is started and exists. Long-term objectives followed by short-term objectives are framed taking into account the feasibility of achieving them. The objectives are framed on the basis of availability of resources.

2. Setting departmental objectives

Objectives for each department, division and section are framed on the basis of overall objectives of the organization. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.

3. Fixing key result areas

Key result areas are fixed on the basis of organizational objectives premises. Key result areas are arranged on the basis of priority. Key result areas indicate the strength of an organization. The examples of key result areas are profitability, market standing, innovation etc.
4. Setting subordinate objectives or targets

Departmental objectives are then set by departmental managers, and get them approved by the top management. This process of setting the objectives is repeated at the lower levels of management. At each level, objectives are set in verifiable unit so that performance of every department and individual may be reviewed after the end of a particular period.

5. Appraisal of activities

In this step, superiors periodically review the progress and the subordinate’s performance is evaluated against the specified standards and initiates corrective action. The superior should identify the reasons for failure of achieving objectives and should tackle such problems.

6. Reappraisal of objectives

An organization has to operate in a dynamic world. So the top management should review the organizations objectives to frame the objectives according to the changing condition.

14.0 ASSESSING MBO EFFECTIVENESS

Research findings have reported no dramatic increases in performance by organizations that use management by objectives. However, many companies have adopted management by objectives and most managers feel that MBO is effective. Managers believe they are better oriented towards goal achievement when MBO is use. Like any system, MBO has many benefits when use properly and is associated with management problems when used properly. This part will analyse the effectiveness of MBO in business.
14.1 IMPORTANCE OF MBO

Major benefits to companies that use MBO include the following according to Mullins (2005:608)

1) Corporate objectives are achieved by focusing manager and employee efforts on specific activities that will lead to their attainment.

2) Performance can be improved at all company levels because employees are committed to attaining objectives.

3) Employees are motivated because they know what is expected and are free to be resourceful in accomplishing their objective.

4) Departmental and individual objectives are aligned with company objectives. Objectives at lower levels enable the attainment of objectives at top management levels.

5) Relationships between managers and subordinates are improved by having explicit discussions about objectives, defining activities that will help achieve them and assigning responsibility.

6) The involvement of employees in setting objectives gives them psychological satisfaction and ultimately gingers them to be more committed to achieving the objectives which they take part in setting than the ones imposed on them (increased motivation).

7) It helps in the identification of training needs. The periodic review of performance may highlight inadequacies or lag in subordinate’s performance so that an appropriate training program is designed to help him acquire the relevant skills for thorough job performance.

8) The periodic superior – subordinate discussion may highlight or reveal abnormalities in the organization’s structures from corrective measures to be taken.
9) The periodic discussion between the superior and the subordinate faster mutual understanding of each other. It therefore helps them to work harmoniously and cooperatively towards the attainment of the corporate goal.

10) Better identification of training needs. Many managers at times make serious mistakes by sending their subordinate for training courses just for the sake of training without knowing the type of training needed by the subordinates and which will be of benefit to the company.

14.2 STRENGTHS OF MBO SYSTEM

The concept of MBO is very important in terms of its managerial implications. Besides being a philosophy of management, it is a system which helps in synchronizing the objectives of the individuals with the objectives of the organization. When implemented properly, systematically and consciously, the MBO has following advantages.

1. Maximum utilization of human resources

Since the goals are set in consultation with the subordinates, these are more difficult to achieve and more challenging than if the superiors had imposed them. In addition, since these goals are fixed according to the particular abilities of the subordinates, it obtains maximum contribution from them and thus it leads to maximum utilisation of human resources.

2. No role ambiguity

There is no role ambiguity or confusion in the organisation, because specific and clear goals are set for the organisation, for the division for the departments and for the individual members. Both the managers and the subordinates know what they have to do and what is expected of them.
3. **Improved communication**

In MBO, there is improved communication between the management and the subordinates. This continuous two way communication helps in clarifying any ambiguities, refining and modifying any processes or any aspects of objectives.

4. **Improved organizational structure**

In MBO, the whole of organizational structure is redesigned because of the revision of job descriptions of various positions as a result of resetting of the individual goals. All this helps in improving the organizational structure as a result of location of the problem and weak areas of the organisation.

5. **Device of organizational control**

MBO serves as a device for organizational control and integration. If there are any deviations discovered between the actual performance and the goals, these can be regularly and systematically identified, evaluated and corrected.

6. **Career development of the employees**

MBO provides a realistic means of analysing training needs and opportunities for growth for the employees. The management takes keen interest in the development of skills and abilities of subordinates and provides an opportunity for strengthening those areas which need further referents, thus, leading to career development of employees.

7. **Result based performance evaluation**

The system of periodic performance evaluation lets the subordinates know how well they are doing. In MBO, strong emphasis is put on measurable and quantifiable objectives. As a result, the appraisal tends to be more objectives specific and equitable. As these appraisal methods are based on result and not on some intangible characteristics, these are considered to be superior to the trait evaluation methods of appraisal.
8. **Stimulating the motivation of the employees**

The system of MBO stimulates the employee’s motivation. First of all, they feel motivated because of their participation in goal setting. They take keen interest in the implementation of the goals which they themselves have set. Secondly the appraisal system, being very objective and specific can be highly morale boosting.

Research findings have reported no dramatic increases in performance by organizations that use management by objectives. However, many companies have adopted management by objectives and most managers feel that MBO is effective. Managers believe they are better oriented towards goal achievement when MBO is use. Like any system, MBO has many benefits when use properly and is associated with management problems when used properly.

**14.3 WEAKNESSES IN MANAGING BY OBJECTIVES**

A system of MBO has certain weaknesses and limitations. Some of these are inherent in the system while some arise when introducing and implementing it. Some of the problems and limitations associated with MBO are as explained below:

1. **Lack of support of top management**

In traditional organizations, the authority is vested in the top management and it flow from top to bottom. In MBO, subordinates are given an equal opportunity of participation, which is resented by the top management. This system cannot succeed without the full support of top management.
2. Resentful attitude of subordinates

The subordinates can also be resentful towards the system of MBO. Sometimes, while setting the goals, they may be under pressure to get along with the management and the objectives which are set may be unrealistically high or far too rigid. The subordinates, generally, feel suspicious of the management and believe that MBO is another play of the management to make them work harder and become more dedicated and involved.

3. Difficulties in quantifying the goals and objectives

The MBO will be successful only if the goals can be set in quantifiable terms. But if the areas are difficult to quantify and difficult to evaluate, it will not be possible to judge the performance of the employees. Moreover, MBO does not have any subjectivity in performance appraisal. It rewards only productivity without giving any consideration to the creativity of the employees.

4. Costly and time consuming process

MBO is quite costly and a time consuming process. There is a lot of paper work involved. Moreover, there are a lot of meetings and too many reports to be prepared, which add to the responsibilities and burden of the managers. Because of these reasons managers generally resist the MBO.

5. Emphasis on short term goals

Under MBO, goals are set only for a short period, for example for six months or one year. This is because of the reason that goals being quantitative in nature, it is difficult to do long range planning. Since the performance of the subordinate is to be reviewed after every six months or one year, they tend to concentrate on their immediate objectives without caring for the long range objectives of the enterprise. This emphasis on short term goals goes against the organisational efficiency and effectiveness and is not a healthy sign.

6. Lack of adequate skills and training

Most of managers lack adequate skills, knowledge and training required in interpersonal interaction which is required in the MBO. Many managers tend to sit down with the subordinate, dictate the goals and targets with no input permitted from the subordinates and then demand that
the goals be achieved in a specified time. Whether the goals are realistic or not does not enter the picture. In this type of environment, two way communications is not there and objectives are imposed on the subordinates. This destroys their morale, initiative and performance.

7. Poor integration

Generally, the integration of the MBO with the other systems such as forecasting and budgeting is very poor. This lack of integration makes the overall functioning of the system very poor.

8. Lack of follow up

Under the system of MBO, the superior must get in touch with the subordinate at the appropriate time and at that time, the Subordinate will inform the boss exactly what has been accomplished and how. If the superior delays the meeting, it will create hurdles in the successful implementation of MBO as the subordinate will also start taking the programme casually.

14.4 DANGERS AND PRECAUTIONS OF MANAGEMENT BY OBJECTIVES

Although managing by objectives has been very successful in some companies, leading to increase in profit, yet it still has some pit falls as has been proven by experience. KOONTZ et al (1976:456)

There is always the danger in a system of managing by objective that, once objectives are agreed upon, the superior will not adequately monitor progress toward goal accomplishment. One of the major advantages of using objectives is that a person has a charter for accomplishment, the appropriate resources and discretion are allocated and any subordinate can be given a high degree of freedom to work toward goal achievement. One would not expect a superior to meddle or constantly took over a subordinate’s shoulder. By the same token, however, a superior should
not sit back and assume that everything is going well and not check on progress until the date of
goal achievement is due.

Superiors as well as subordinate should have regular information available to them as to how
well a subordinate’s goal performance is progressing. Superior’s goal performance is
progressing. Superiors should regularly review progress through this information and through
personal consultation and should make themselves available for counseling to help subordinates
in meeting goals. This is not, and should not be taking over tasks from subordinates, it is merely
following through with the job of manager. Most subordinates will welcome follow-up,
counseling, and assistance with their problems and aid in removing obstructions to their
successful performance.

Management by objectives is a process by which the members of a work unit individually meet
with their supervisors to establish performance related goals. Each member with the assistance
and guidance of his supervisor, defines his area of responsibility evaluates, the current handling
of these duties, Set objectives for improved results, develop a plan of action to achieve the
objectives, implement this action plan, and periodically hold performance review.

Management by objective planning process in a nutshell involves determination and
specification of objectives by superior and subordinate managers, periodic discussion or
subordinates activities (Obstacles encountered and opportunities existing /anticipated) and
tutorial on how to channel efforts for optimal performance.

14.5 RECOMMENDATIONS

1. Management by objectives in its ideal form operates in such a way that for the corporate
goals to be realized manager should consult his subordinates in drawing up unit objectives,
which goes up the hierarchy from where it is modified collected approval and distributed
throughout the organization.

2. There should be regular training and re-training of employees in order to achieve the
corporate objectives.

3. Managers should endeavour to bill a true team and weld individual’s efforts together.
4. Their efforts must all pull in the same direction and their contribution must fit together to produce a whole without friction and without duplication of effort.

5. Managers and employees should periodically meet in order to review progress towards the realization of objectives.

6. There should be autonomy in implementation of plans once the objectives have been agreed upon, the individual enjoys wide discretion in choosing the means for achieving the objectives without being second quessed by higher ranking manager.

7.

15.0 CONCLUSION

Management needs a lot of tools to be able to administer effectively in the day to day running of the business. Management by objectives is one of such tools. It is a way of getting improved results in managerial action. Management by objectives can be described as a managerial method where by the superior and the subordinate managers in an organization identify major areas of responsibility, in which they will work, set some standards for good or bad performance and the measurement of results against those standards Derek (2005:156).

Even though MBO is criticized of having some potential drawbacks, it still has many positive implications and relevance to modern day business. Management of organization especially in its practical terms requires that each manager of a unit draws up his department objectives with his subordinates in line with the centrally stipulated corporate objectives and missions.

These unit objectives when approved by the management clearly define responsibilities and expected results are shared and distributed throughout the organization as a basis for performance and rewards. The objectives set in the process of management by objectives help provide a yardstick for appraisal, compensation and control.

Once the objectives are agreed upon, everyone knows what is expected of him, thereby making appraisal and reward easy and known what is more, it facilitates control of organizational operations as deviations can be easily identified and connections made.