



Improving organizational performance through management by objectives

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Abstract

Management by objectives is a technique and system which helps in improving organization performance. It is a comprehensive managerial system that integrates many key managerial activities in a systematic manner. Consciously directed towards the effective and efficient achievement of organization objectives. Its basic idea has been derived from the concept of participative goal setting as a technique of organisational development. The term Management by objectives was coined by Drucker in 1964 when he emphasized the concept of managing by results. Since then, many business and non-business organizations have adopted this in some form or the other.

Keywords: key result areas, management by objectives, organisational change, review of performance, task and activities

Introduction

Management by objectives (MBO) is now widely practiced in the business organizations around the world as a planning and control technique. MBO is a 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. MBO is a way of managing which focuses on accomplishment of well-defined objectives rather than on tasks and activities.

MBO process involves the following steps:

- Identification of organisational, divisional, departmental, group and individual objectives,
- Formulation of effective managerial strategies, policies and procedures, and
- Measurement of performance in terms of objectives.

MBO is based on the premises of self-direction and self-control. MBO is used as a tool for performance appraisal, motivating employees and strategic planning. MBO requires organizational redesign to integrate various managerial activities into a system. In MBO system, the objectives are set by the top management what is perceived to be the purpose or mission and the more important goals of the enterprise for a given period ahead. These goals can be set for any period- a quarter, a year, 5 years on whatever is appropriate in given circumstances. The goals set by the superior are preliminary, based on analysis and judgement as to what can be accomplished by the organization within a certain period. The setting of objectives is based on the SWOT analysis, in the light of organisational strengths and weaknesses and environmental opportunities and threats. The objectives set under MBO are verifiable in quantitative terms for exercise more effective appraisal and control. Objectives are determined within the framework or organizational purpose and philosophy, and after taking into account its present and potential resources and environment, strategies, policies, procedures and budgets are established for their achievement. MBO provides scope to the individual managers to use his skills, experience, creativity and innovativeness in achieving goals set for him and fulfils his need

for 'self-actualization'. Objectives set at total organizational level and broken down into its components and elements dictate the strategies, policies and procedures as guides to decision making at operational levels.

Process of MBO

MBO is a system for achieving organizational objectives, enhancement of employee commitment, and participation. Therefore, its process should facilitate translation of basic concepts into management practices. The MBO process is characterized by the emphasis on the rigorous analysis, the clarity and a balance of objectives, and participation of the managers with accountability for results. The MBO process is not as simple as it appears to be. Managers need training and experience for developing the required skills. The process is explained hereunder:

1. **Setting of Organisational Purpose and Objectives:** The first basic step in MBO is the definition of organisational purpose and objectives. Questions, such as, 'why the organization exists' 'what business we in are' and 'what should be our businesses provide guidelines for the statement of purpose. This, in interaction with external factors, then determines the long-range strategic objectives like whether to achieve growth through expansion in the same line of business or diversify, what should be blending of trading and manufacturing activities, what should be degree of vertical integration and so on. Usually, the objective setting starts at the top level of the organization and moves downward to the lowest managerial level. This will go in a sequence like defining the purpose of organisation, long-range and strategic objectives, short-term organizational objectives, division/departmental/ sectional objectives and individual manager's objectives.
2. **Key Result Areas:** Organisational objectives and planning premises together provide the basis for the identification of key result areas (KRAs). It may be emphasized that KRAs are derived from the expectations of various stakeholders

and indicate the priorities for organizational performance. KRAs also indicate the present state of an organisation's health and the top management perspective for the future. Examples of KRAs applicable to most of the business organisations are

1. Profitability,
2. Market standing,
3. Innovation,
4. Productivity,
5. Worker performance,
6. Financial and physical resources,
7. Manager performance, and
8. Public responsibility.

Even though KRAs are most durable, the list of KRAs gets considerably changed over the period in response to new needs and opportunities. Sometimes, the achievement in a particular KRA also provides the impetus for a new KRA in future

3. **Setting Subordinates' Objectives:** The organisational objectives are achieved through individuals. Therefore, each individual manager must know in advance what he is expected to achieve. Every manager in the managerial hierarchy is both superior and subordinate except the person at the top level and the lowest level. Therefore, there is a series of superior and subordinate relationships. The process of objective setting begins with superior's proposed recommendations for his subordinate's objectives. In turn, the subordinate states his own objectives as perceived by him. Thereafter, the final objectives for the subordinate are set by the mutual negotiation between superior and subordinate. In the beginning of MBO process in an organization, there may be wide gap between the recommended objectives by the superior and subordinate's stated objectives because the latter may like to put lesser burden on him by setting easily achievable objectives. However, with the experience gained over the period of time, this gap narrows because of narrowing down to perception of superior and subordinate about what can be done at a particular level.
4. **Matching Resources with Objectives:** When objectives are set carefully, they also indicate the resource requirement. In fact, resource availability becomes an important aspect of objective setting because it is the proper application of resources which ensures objective achievement. Therefore, there should be matching between objectives and resources. By relating these to objectives, a superior manager is better able to see the need and economy of allocating resources. The allocation and movement of resources should be done in consultation with the subordinate manager.
5. **Appraisal:** Appraisal aspect of MBO tries to measure whether the subordinate is achieving his objective or not. If not, what are the problems and how these problems can be overcome. Appraisal is undertaken as an on-going process with a view to find out deficiency in the working and also to remove to promptly. It is not taken merely to punish the non-performer or to reward the performer. It is taken as a matter of system to ensure that everything is going as planned and the organisation is able to achieve its objectives.
6. **Recycling:** Though appraisal is the last aspect of MBO process, it is used as an input for recycling objectives and

other actions. Objectives are neither set at the top and communicated to the bottom nor are they set at the bottom and go up. Objective setting is a joint process through interaction between superior and subordinate. Therefore, what happens at each level may affect other levels also. The outcome of appraisal at one level is recycled to see if the objectives have been set properly at the level concerned and also at the next higher level.

The three aspects involved in recycling process include setting of objectives at various levels, action planning in the context of those objectives, and performance review. Each of these aspect gives basis for performance review, and performance review gives basis for objective setting and action planning. This process goes on a continuous basis.

Benefits of MBO

The experience of many organisations suggests that when used as an approach to management, MBO has a wide range of benefits. For example, Beck and Hilmar have given as much as thirty-five reasons why MBO is a better and effective concept for managing an organization. This is possible because MBO can be applied in several aspects of organizational activities like performance appraisal, organisation development, long-range planning, integration of individual and organisational objectives, and so on. Therefore, the benefits of MBO can be seen in the following terms:

1. **Better Managing:** MBO helps in better managing the organizational resources and activities. Resources and activities are put in such a way that they result into better performance, there are five basic assumptions about what improves performance. These are (i) clarity of objectives, (ii) role clarity, (iii) periodic feedback of performance, (iv) participation by managers in the management process, and (v) realization that there is always scope for improvement of performance in every situation.
2. **Clarity in Organizational Action:** MBO tends to provide the key result areas (KRAs) where organizational efforts are needed. Since organisational objectives are defined very clearly, they help in relating the organization with its environment. A key factor in objective setting is the external environment in which the organisation operates. Therefore, any change in environment factors is taken care of at the level of objective setting itself. Thus, it provides basis for long-range planning in the organization. The organization can look forward to what it intends to do in future, in short run as well as in long run. Besides the external factors, internal factors can also be taken suitably while formulating plans as all internal factors are made explicit in terms of what the organization can do, where it lacks, and how this gap can be overcome. All these factors lead to define the organization properly in the environmental context as well as in the context of its various competitors.
3. **Personnel Satisfaction:** MBO provides greatest opportunity for personnel satisfaction. This is possible because of two closely-related phenomena: participation in objective setting and rational performance appraisal. When the individuals are involved in objective setting, they derive satisfaction because of the feeling that they are important to the organisation. They enjoy considerable authority which is a

source of inspiration for better performance. Besides these, they are very sure that their performance will be measured in terms of their actual performance and will not be affected by managerial prejudices, biases and other personal factors. When performance appraisal is based on some specified criteria with commensurate rewards leaving least scope of personal factors, there is no unnecessary politicking of activities. In fact, in many organizations, people do not perform to the level of their potential because of absence of these positive factors and often there is high rate of managerial turnover.

4. **Basis for Organizational Change:** MBO stimulates organisational change and provides a framework and guidelines for planned change, enabling the top management to initiate, plan, direct, and control the direction and speed of change. In any organization, change is required because of change in external factors or in internal factors or changes taking place in both the factors simultaneously. Therefore, to cope up with the change, the organization has to change itself appropriately. However, this change is not automatic but requires efforts on the part of the managers, particularly at the top level. A very difficult problem comes in the way of organizational change because people resist it. If the MBO is applied, the change process becomes easier because there is lesser amount of resistance to change as people become more innovative and dynamic and changes can be incorporated very easily as compared to rigid system of objective setting and performance evaluation by the superior alone.

Problems and Limitations of MBO

MBO is not without its problems and weaknesses. MBO is generally, taken as panacea for all problems or magic wand which can deliver everything. On the contrary, many organizations have been overwhelmed by the problems of MBO and have failed to derive the expected results. Some of the problems are inherent in MBO system itself while others emerge because of wrong implementation. Each organization is likely to encounter specific problems in MBO practice but some of the common problems are given hereunder:

1. **Time and Cost:** MBO is not as simple as it looks to be. It is a process which requires large amount of the most scarce in the organization-time of the senior managers. This is particularly so at the initial stages, when MBO is seen as something over and above the normal work. Sometimes, managers get frustrated and feel overburdened. Further, MBO generates paper work because large number of forms are to be designed and put into practice. Therefore, there is a problem of communication overload. However, such problems are transitory and emerge only at the initial stages. Once MBO becomes a part of the organizational life, these problems disappear.
2. **Failure to Teach MBO Philosophy:** MBO is a philosophy of managing an organization in a new way. However, managers fail to understand and appreciate this new approach. They have a number of doubts about MBO like what purpose is served by MBO, how the performance is to be appraised, and how organisation will benefit. MBO demands rigorous analysis as an integral element of the management process but the organisation may not be used to rigour. Frequently, both the base data and the expertise for

analysis are not available. If corrective action is not taken early, the objectives become imprecise, control information may not be available, and one would not know if something was achieved. This is done on a systematic basis and managers seldom appreciate this. They take MBO as another tool for control. Moreover, their old way of thinking puts difficulty in introducing MBO because they may not appreciate the full view of MBO.

3. **Problems in Objective Setting:** MBO requires verifiable objectives against which performance can be measured. However, setting such objectives is difficult at least in some areas. Objectives are more in the form of statement rather than in quantitative form. Of course, some objectives can be quantified and can be broken in terms of time period but others lack this characteristic for further course of action.
4. **Emphasis on Short-term Objectives:** Sometimes, in order to be more precise, there is a tendency to emphasize short-term objectives usually for a year or even less. No doubt, this may help in performance appraisal but there is always a danger in emphasizing short-term objectives at the cost of long-term objectives. Sometimes, an organization's short-term and long-term objectives may be incompatible because of certain specific problems.
5. **Inflexibility:** MBO represents the danger or inflexibility in the organization, particularly when the objectives need to be changed. In a dynamic environment, a particular objective may not be valid for ever. In the context of revised objectives, changed premises, or modified policies, it is useless to follow the old objectives. However, many managers often hesitate to change objectives during a period of time. Thus, inflexibility created by applying MBO may cause harm than what it may contribute.
6. **Frustration:** Sometimes, MBO creates frustration among managers. This frustration among managers. This frustration may be because of two reasons: First, as experience shows, many organization could not implement MBO properly, resulting into utter chaos. In this case, an organization is not able even to work with its old system. Second, introduction of MBO tends to arouse high expectation for rapid change, particularly among the young and junior managers. They begin to see the vision of a new world for their organization in terms of growth, profitability, and for themselves in terms of career advancement. If the rate of change is slower than expected due to any reason, managers begin to feel frustration and even disenchantment with MBO.

In spite to these obstacles and problems in MBO, it continues to be a way of managing the organization. In fact, many of the problems and weakness of MBO can be overcome by implementing it properly.

Conclusion

MBO is a philosophy, rather than mere a technique. As such, its installation requires a basic change in the organisational culture and environment. Many of the organizations could not use MBO successfully because of the lack of appreciation of this fact. Many of the organisations are designed so as to undermine the MBO philosophy. This is because they could not create the proper environment required for the adoption of MBO. A close look on below mentioned aspects is needed:

- MBO is a means rather than an end. It has to achieve certain things in the organisation, it has to solve some problems. Thus, the organization should be very clear about the purpose for which it is being implemented.
- The presence or absence of top management support is a critical factor in determining the degree to which an MBO programme will be successful. Many studies on MBO suggest that out of the several factors determining the success or failure of MBO, no single factor had greater correlation than the subordinate's perception of superior's attitude toward MBO. Thus, subordinates who can see their superiors as having a positive approach toward MBO are themselves likely to show a positive attitude. MBO is a way of managing on a day-to-day basis rather than an exercise of writing objectives once a year.
- Another critical factor in implementing MBO is the existence of some type of training programme for people who will be operating under it. Systematic training is required in the organization for disseminating the concepts and philosophy underlying MBO. The training should start with the concepts, philosophy, and need for MBO. If people in the organization are not clear about the reasons for which MBO is being undertaken, they will fear and may show their resistance because people tend to show fear to what they do not understand. This fear can lead to suspicion and mistrust which, in turn, undermines people's enthusiasm which is very important during the initial stages of MBO.
- Success with MBO requires a commitment on the part of each individual involved in this type of system. Their commitment, in turn, is a function of their identification with and participation in the system. The subordinate should not perceive that MBO is another technique being used by his superior to control his performance. Such undesirable perception may be avoided by encouraging the subordinate to play an active role in the preliminary phases leading to the actual writing of the objectives.
- If the full benefits of MBO are to be realized, it must be carried all the way down to the first line of the organisation. There is a tendency for active participation in objective setting itself and for periodic feedback and review to diminish, the further down the management ladder the programme gets. If such a tendency prevails, to that extent, MBO will be ineffective.

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