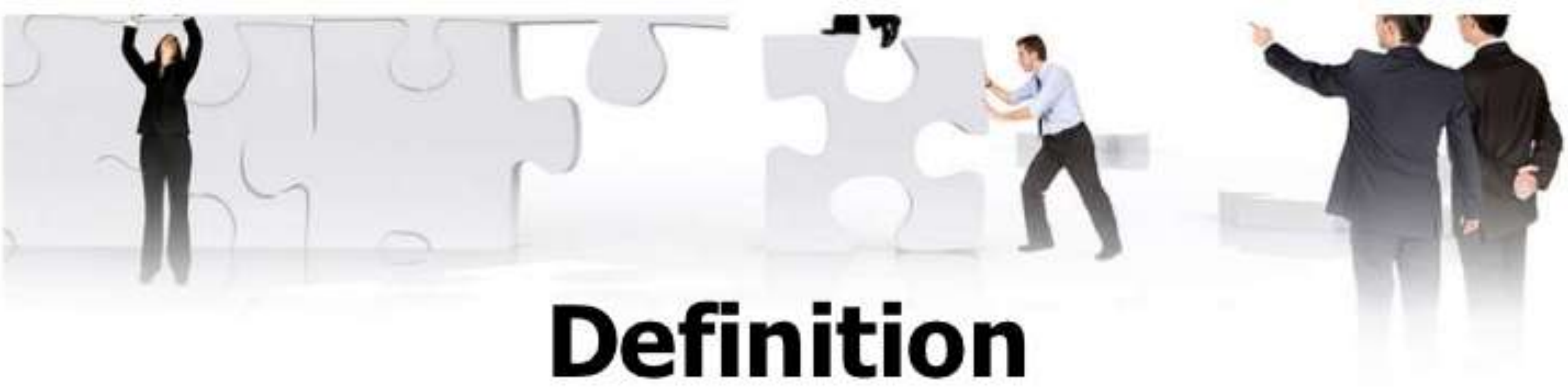
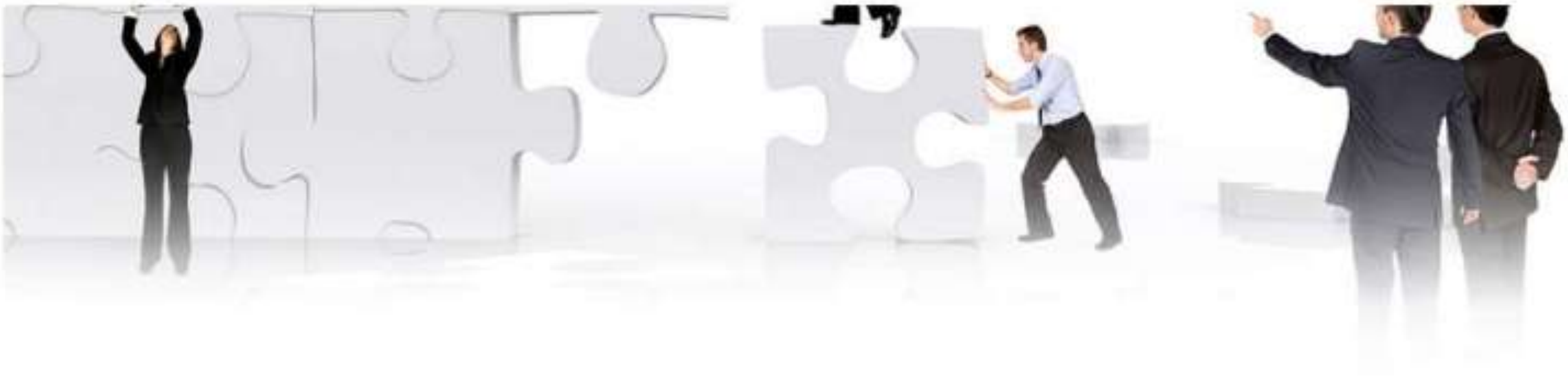

Management by Objectives
HRM Presentation



Definition

Management By Objectives (MBO) can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be taken as the criteria for measurement of their performance and contribution and deciding the course of action to be followed.



- 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 in the organization.
- The term "management by objectives" was first popularized by Peter Drucker in his 1954 book 'The Practice of Management'

Main Concept

- The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own 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 organization.

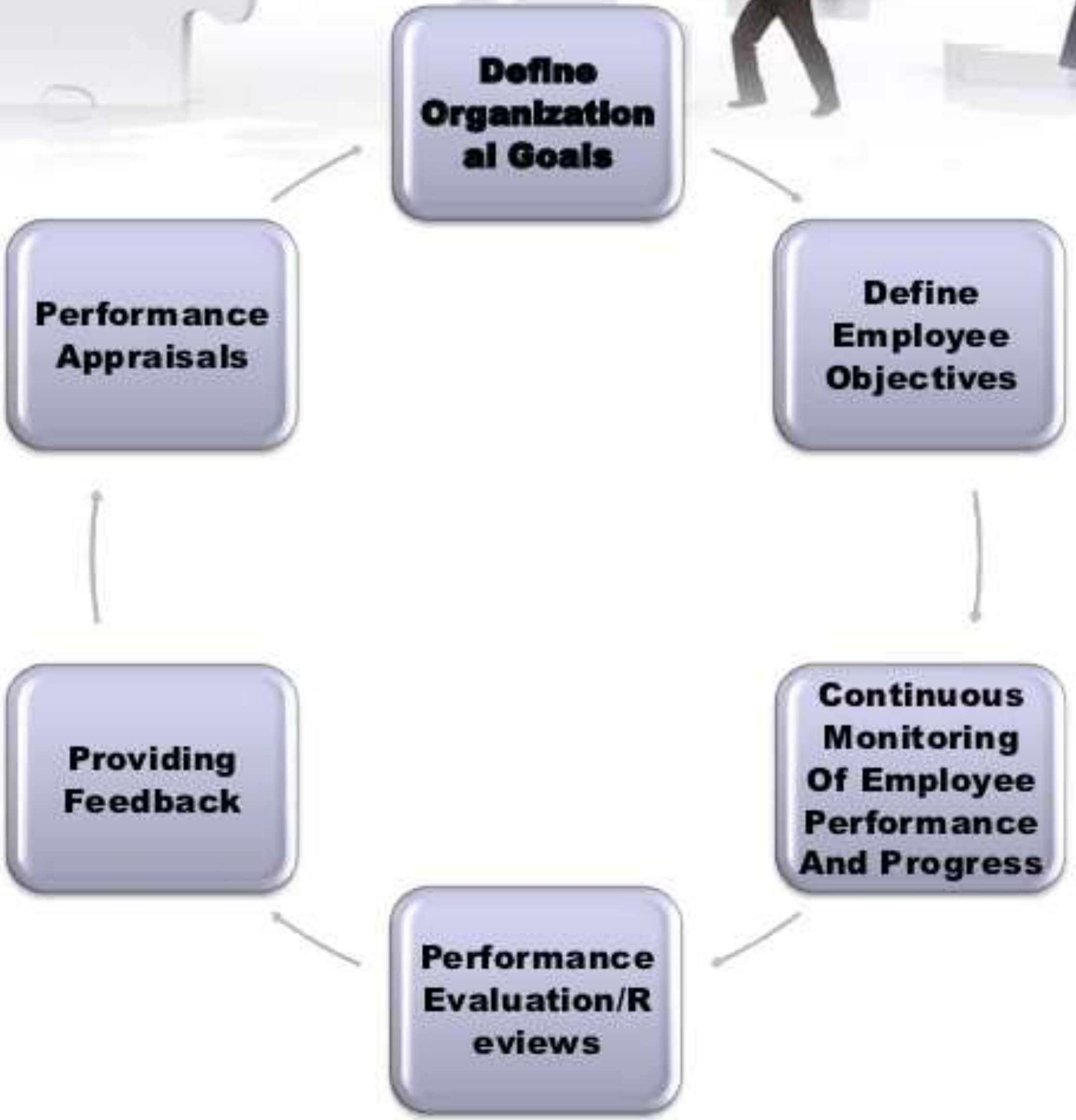
Management by Objectives Principles

- Cascading of organizational vision, goals and objectives
- Specific objectives for each member
- Participative decision making
- Explicit time period
- Performance evaluation and feedback

MBO Strategy: Three Basic Parts

- All individuals within an organization are assigned a special set of objectives that they try to reach during a normal operating period. These objectives are mutually set and agreed upon by individuals and their managers.
- Performance reviews are conducted periodically to determine how close individuals are to attaining their objectives.
- Rewards are given to individuals on the basis of how close they come to reaching their goals.

The MBO Process



Features and Advantages of MBO

- Motivation – Involving employees in the whole process of goal setting. Increasing employee empowerment increases employee job satisfaction and commitment.
- Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the enterprise and also solves many problems faced during the period.
- The Smart Method

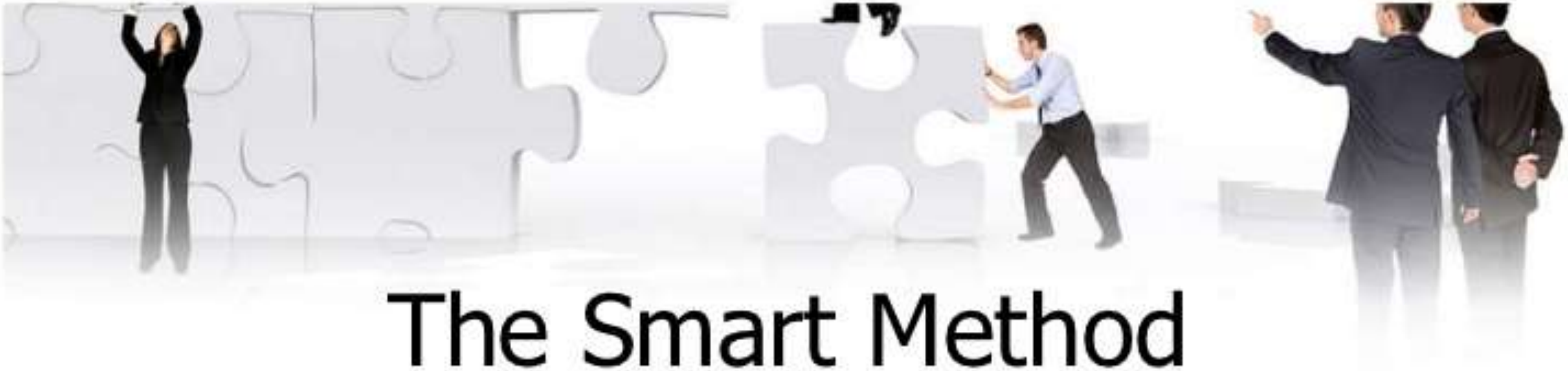
Where to Use MBO

- 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.

The Smart Method

Clarity of goals – With MBO, came the concept of SMART goals i.e. goals that are:

- Specific
- Measurable
- Achievable
- Relevant, and
- Time bound.



The Smart Method

- The goals thus set are clear, motivating and there is a linkage between organizational goals and performance targets of the employees.
- The focus is on future rather than on past. Goals and standards are set for the performance for the future with periodic reviews and feedback.

Core Concepts

According to Drucker managers should "avoid the activity trap", 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 implement ability of the plan, and
- Implement a range of performance systems, designed to help the organization stay on the right track.

Managerial Focus

- MBO managers focus on the result, not the activity.
- They delegate tasks by "negotiating a contract of goals" with their subordinates without dictating a detailed roadmap for implementation.
- Management by Objectives (MBO) is about setting yourself objectives and then breaking these down into more specific goals or key results.

Balance Between Management and Employee Empowerment

- The balance between management and employee empowerment has to be struck, not by thinkers, but by practicing managers. Turning their aims into successful actions, forces managers to master five basic operations:
- setting objectives
- organizing the group
- motivating and communicating
- measuring performance and
- developing people

Individual Responsibility

- Management by Objectives (MBO) creates a link between top manager's strategic thinking and the strategy's implementation lower down.
- Responsibility for objectives is passed from the organization to its individual members.
- It is especially important for knowledge-based organizations where all members have to be able to control their own work by feeding back from their results to their objectives.

Individual Responsibility

Management by objectives is achieved through self-control, the tool of effectiveness. Today the worker is a self-manager, whose decisions are of decisive importance for results.

In such an organization, management has to ask each employee three questions:

- What should we hold you accountable for?
- What information do you need?
- What information do you owe the rest of us?

MBO: Key Advantages and Disadvantages

Advantages

- MBO programs continually emphasize what should be done in an organization to achieve organizational goals.
- MBO process secures employee commitment to attaining organizational goals.

Disadvantages

- The development of objectives can be time consuming, leaving both managers and employees less time in which to do their actual work.


Thank You!