

**Principles of Management**  
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**Lecture - 23**  
**Management by Objective (MBO) - I**

In this lecture, I will be discussing about Management by Objectives. Let me discuss about what we have covered in the previous lecture, we discussed about how managers take decisions. So, an effective decision can be taken when there is a consensus and there is an involvement of all employees in the organization or how to effectively set a goal.

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•	Meaning of objectives
•	Nature of objectives
•	Guidelines for setting objectives
•	Management by Objectives (MBO)
•	Evolving concepts of MBO
•	Systems approach to MBO
•	Process of MBO
•	Key Results Area
•	MBO in India
•	Application of MBO in Performance Management System

So, the contents which we will be discussing here is meaning of objectives, nature of objectives, how an objective is being set using guidelines, and management by objective in more details, evolving concepts of management by objective and a system, systems view or systems approach to management by objective, then what is the process of defining or process of MBO (Management by Objective), and what are key result areas and how it is applied in various industries, application of MBO in performance management system.

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# LEARNING OUTCOMES

- To develop a familiarity with the key concepts used in MBO.
- To understand the practical application of MBO in organizations.


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The learning outcomes is to develop a familiarity with the key concepts used in management by objective and to understand the practical application of MBO in all organizations.

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# DEFINITION OF PLANNING

- Planning involves **selecting missions and objectives** and the actions to achieve them; it requires decision making, that is, choosing from among alternative future courses of action.



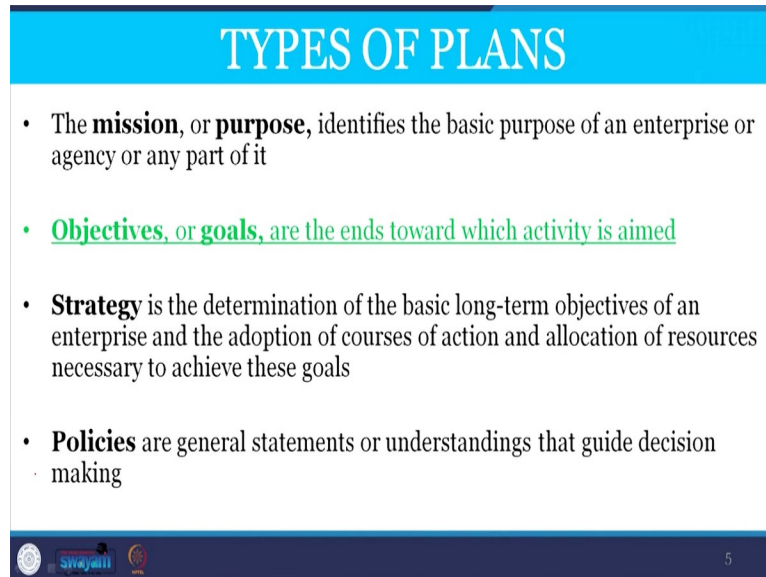
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So, we will start with the basic definition of what is planning. As we all know planning is an important step in important management function. Planning involves selecting mission, purpose and objectives and the actions to achieve them. It requires decision making and as we have studied various ways of decision making, individual manager takes decisions which is succumb to biases, there are some shortcuts in decision making.


So, it is always wise enough to take views of others or opinion of others or consensus in decision making. So, with this perspective, we will be learning about management by objective, how a goal can be set and what are the steps in implementation of goals. So, that is choosing from among the alternatives, future courses of actions can be defined, what are the various types of plans.

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## TYPES OF PLANS

- The **mission**, or **purpose**, identifies the basic purpose of an enterprise or agency or any part of it
- Objectives, or goals, are the ends toward which activity is aimed
- **Strategy** is the determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals
- **Policies** are general statements or understandings that guide decision making




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Mission or purpose identifies the basic purpose of an enterprise or agency; and objectives or goals, are the end results or ends towards which any activities aimed. Strategy is the determination of the basic long-term objective of an enterprise and adoption of courses of action and allocation of resources necessary to achieve these goals. The policies are general statements or understandings that guide decision making.

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## TYPES OF PLANS (contd...)

- **Procedures** are plans that establish a required method of handling future activities
- **Rules** spell out specific required actions or nonactions, allowing no discretion
- **Programs** are a complex of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a given course of action
- A **budget** is a statement of expected results expressed in numerical terms




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And various types of procedures are the plans that establish a required method of handling future activities. Similarly, the rules spell out specific required actions or which allow no discretion and programs are a complex of goals, policies, procedures, rules, tasks, assignments and a step-by-step plan or steps to be taken, resources to be employed and other elements which are necessary to carry out a given course of action and the budget is a statement of expected results expressed in numerical terms.

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## STEPS IN PLANNING

1. Being Aware of Opportunities
2. Establishing Objectives or Goals (focus of today's discussion)
3. Developing Premises
4. Determining Alternative Courses
5. Evaluating Alternative Courses
6. Selecting a Course
7. Formulating Derivative Plans
8. Quantifying Plans by Budgeting

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So, with this background, we will start with what are the steps taken in planning. There are 8 steps, a manager must be aware of opportunities while planning and establish goals or objectives develop premises, determine determining alternative courses of actions, evaluate alternative courses, select a course and formulate plans, quantify plans by budgeting. So, these steps can be executed.

One important point is how to set objectives or goals which will we will be discussing in more details in management by objective. Let us discuss about how a manager identifies opportunities in the business. What is opportunity? A manager needs to initiate a plan or as they propose a purpose for any business, they must know what is the business environment; whether it is conducive, favourable to initiate the business or not, what are the factors in the business environment which may hinder in the accomplishment of goals.

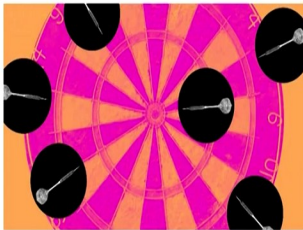
So, these things must be kept in mind while initiating any enterprise, while starting in any business or a new venture. Opportunity identification, who is the competitor, what are the strengths and weaknesses of competitors, competitor intelligence: that is knowledge about the competitors, resources, competitors strengths, competitors say technology and the products and services.

So, the marketer or the manufacturer or the business enterprise must be aware of all these opportunities and then, he should start his venture. So, we will discuss about what is objective. Let us discuss about the fundamental definition of objective.




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## OBJECTIVES

- **Objectives** are the *important end results* towards which organizational and individual activities are directed
- An objective is **verifiable** when at the end of the period, one can *determine whether or not the objective has been achieved*



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Objectives are important end results towards which organizations and individuals are directed. An objective is a verifiable one, at the end of the period, one can determine whether or not the objective has been achieved. So, it can be always verified time and again whether and it can be compared; whether it the goals are achieved or not.

So, well, what are the various types of objectives? Objectives can be verifiable or quantitative, they can also be non-verifiable or qualitative objectives. So, let us differentiate between what is a verifiable or quantitative objective, what is a qualitative or non-verifiable objective.

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Types of Objectives	
Verifiable or Quantitative	Non verifiable or Qualitative Objectives
<ul style="list-style-type: none"> <li>Goal is measured by a metric or statistic.</li> <li>Deals with numbers.</li> <li>Length, height, volume, weight, speed, time, temperature, humidity, sound, level, cost, measures, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative goals are subjective measures like <u>communicating more effectively</u>, <u>learning to better adapt to change</u>, working collaboratively with you team, and so on.</li> <li>Deals with descriptions</li> <li>Data can be observed but cannot be measured.</li> <li>Colour, texture, smell, taste, etc:</li> </ul>

**Quantitative:** As the name goes, quantitative means something which is objective and **qualitative** means something which is very subjective. The quantitative goal is measured by a metric or statistics. It deals with numbers for example, length, height, volume, weight, speed, time, temperature, humidity, sound, level, cost, measures etcetera.

*Non-verifiable or qualitative objectives*, these are very subjective measures like communicating more effectively. So, what is, what do you mean by communicating more effectively? It is subjective, relative, more effective or it is a kind of a fuzzy word or an abstract word which cannot be quantified, there is no quantification. You cannot associate not quantified, cannot associate any number, number cannot be associated.

So, this metrics cannot be well defined. Learning to better adapt to change, better adapt, or lesser adaption, adaptation to change, working collaboratively or less collaboratively with your team, and so on. Deals with certain descriptions and no quantification. Data can be observed but cannot be measured. For example, colour, texture, smell, taste, satisfaction so, these are all examples of qualitative objectives.

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**QUALITATIVE OBJECTIVES- EXAMPLES**

*Quantitative*  
*Qualitative Or*  
*Verifiable Objective*

1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To issue a two-page monthly newsletter beginning July 1, 2005 involving not more than 40 working hours of preparation time (after the first issue)
3. To increase production output by 5% by December 31, 2005 without additional costs and while maintaining the current quality level
4. To design and conduct a 40-hour in-house program on the "fundamentals of management," to be completed by October 1, 2005 involving not more than 200 working hours of the management development staff and with at least 90% of the 100 managers passing the exam (specified)
5. To install a computerized control system in the production department by December 31, 2005 requiring not more than 500 working hours of systems analysis and operating with not more than 10% downtime during the first 3 months nor 2% thereafter

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Now, we will discuss about some of examples in more details. What is a quantitative objective? What is a quantitative objective? Quantitative objective is something which is verifiable; quantitative objective is something which is verifiable which is, which has, which can be associated with numbers.

For example, to achieve a return on investment of 12 percent at the end of the current fiscal year. So, there is a quantity which is defined, there is a timeline which is defined. The end of the year is a timeline and quantity are 12 percent. To issue a two-page monthly newsletter beginning on 1st of July, again there is a timeline and amount of say a two-page monthly report.

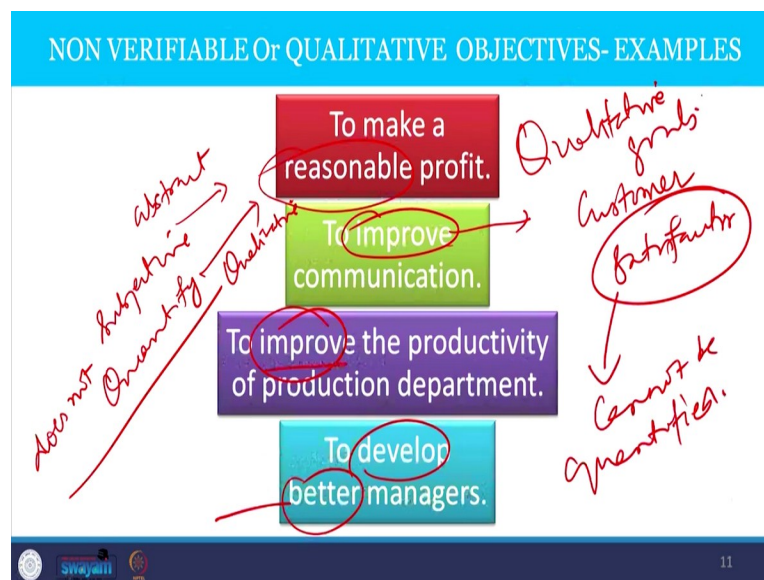
So, there is a number which is defining the task. 2000, beginning July 2005, involving not more than 40 working hours of preparation time after the first issue. So, there is a constraint which is guided by some timeline and there is a quantifiable, there is a quantity which is being measured. To increase production output by 5 percent by 5th of or 31st of December 2005 without additional cost and while maintaining the current quality level.



To design and conduct a 40-hour in-house training program on the fundamentals of management to be completed by 1st of October 2005, involving not more than 200 working hours of management development staff and with at least 90 percent of 100 managers passing the examination is being specified.

So, there is a specific quantity, there is a specific deadline which is mentioned in a quantitative objective which is also which can be verified. The next example is to install a computerized control system in the production department by 31st of December 2005 requiring not more than 500 working hours of systems analysts and operating with not more than 10 percent downtime during the first 3 months nor 2 percent thereafter. So, in all these examples, a well-defined objective fact is being given.

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Next, we move on to non-verifiable or qualitative objective for example, to make a reasonable profit. As I discussed earlier, something which is abstract in nature, which does not quantify; which does not quantify is called qualitative; qualitative; qualitative goal.

To improve communication, the word improvement is a subjective measure. To improve productivity, to develop better managers so, better to develop something in a better manner. Customer satisfaction, satisfaction is again something which cannot be quantified. So, what are these? These are qualitative goals otherwise; they are called qualitative goals.



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GUIDELINES FOR SETTING OBJECTIVES	
If the objectives meet the criterion, write "+" in the box at the right of the statement. If they do not, mark "-" in the box.	
1. Do the objectives cover the main features of my job?	<input type="checkbox"/>
2. Is the list of objectives too long? If so, can I combine some objectives?	<input type="checkbox"/>
3. Are the objectives verifiable; that is, will I know at the end of the period whether or not they have been achieved?	<input type="checkbox"/>
4. Do the objectives indicate:	
(a) Quantity (how much)?	<input type="checkbox"/>
(b) Quality (how well, or specific characteristics)?	<input type="checkbox"/>
(c) Time (when)?	<input type="checkbox"/>
(d) Cost (at what cost)?	<input type="checkbox"/>
5. Are the objectives challenging, yet reasonable?	<input type="checkbox"/>
6. Are priorities assigned to the objectives (ranking, weighing, etc.)?	<input type="checkbox"/>

So, what are the guidelines for setting objectives. In management by objective, we need to set goals which are verifiable, which are quantitative, which can be measured, which can be realistic and which can be attained on a specific timeline. So, there must be some guidelines for setting the objectives.

And now, we will discuss if the objectives meet the criteria, we can write a tick mark or a plus sign in the box at the right statement. If they do not, then we can eliminate or we can put a cross mark in the box. So, we must have a kind of check box kind of say measures or check box or to set objectives.

So, whenever managers set any objective, they need to also check, they need to verify whether they are able to meet the goals or not, that will give them a feedback of what is, what goals have been achieved, what goals are still or yet to be achieved. So, we will have kind of say, I will discuss about some guidelines which managers can set, do the objectives cover the main features of my job or my task?

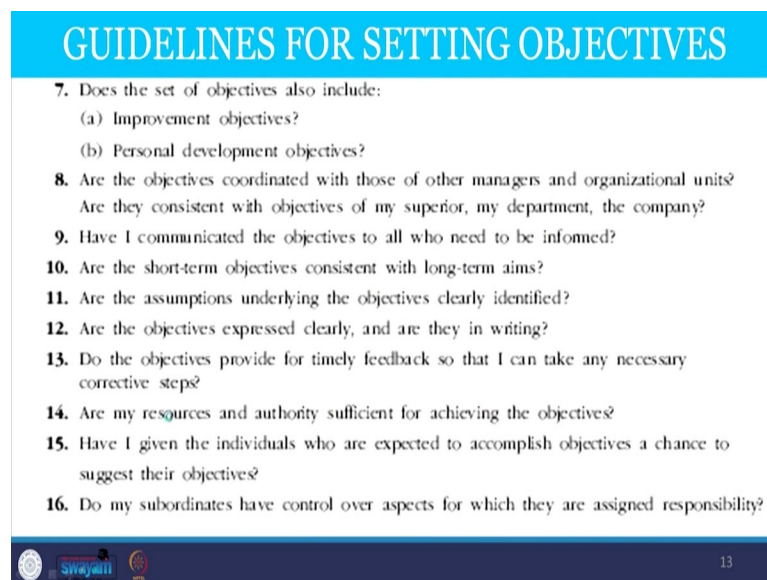
Is the list of objectives too long? If so, can I combine some objectives together? So, you can put a cross mark or you can put a tick mark. So, if you move with a kind of a guideline, then probably it will be easier for the manager to attain the objectives in a timely manner.

So, are the objectives verifiable that is, will I know at the end of the period whether it is, whether or not they have been achieved? Do the objectives indicate quantity, if yes, how

much? Quality, how well or specific characteristics? What is the timeline? What is the cost involved? Are these objectives challenging or they are only reasonable?

Yes, reasonable. So, our priority is being assigned to the objectives is there any kind of ranking or weightage being given to the objectives which the manager is going to achieve or which the manager would be having in his say in his planning stage?

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**GUIDELINES FOR SETTING OBJECTIVES**

7. Does the set of objectives also include:
  - (a) Improvement objectives?
  - (b) Personal development objectives?
8. Are the objectives coordinated with those of other managers and organizational units?  
Are they consistent with objectives of my superior, my department, the company?
9. Have I communicated the objectives to all who need to be informed?
10. Are the short-term objectives consistent with long-term aims?
11. Are the assumptions underlying the objectives clearly identified?
12. Are the objectives expressed clearly, and are they in writing?
13. Do the objectives provide for timely feedback so that I can take any necessary corrective steps?
14. Are my resources and authority sufficient for achieving the objectives?
15. Have I given the individuals who are expected to accomplish objectives a chance to suggest their objectives?
16. Do my subordinates have control over aspects for which they are assigned responsibility?

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Next, does the set of objectives also include improvement objectives or personal development objectives? What is the nature of the objective, whether it is only to improve or it is to it is for personal development? Are the objectives coordinating with those of the managers, other managers and organizational units?

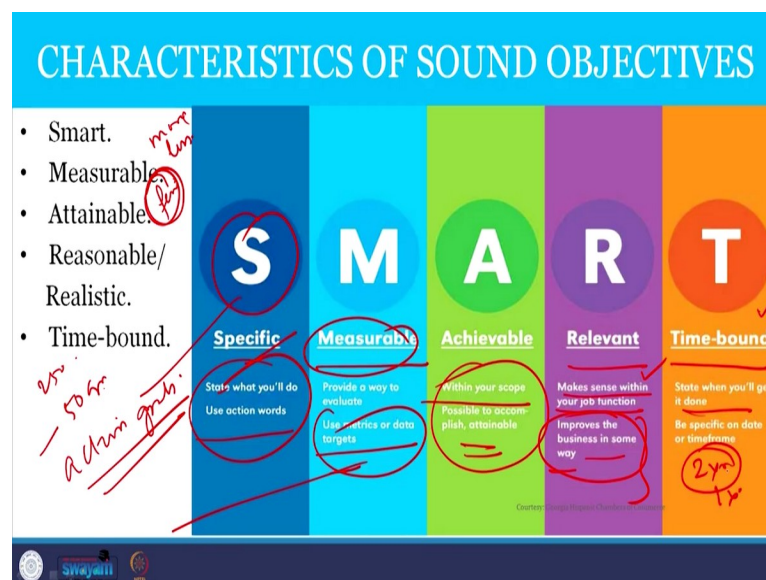
Is the objective associated with other objectives or it is only to be initiated and done by the individual alone? So, these things will be taken or these things need to be assessed from time and again. Are they consistent with the objective of my superior, my department or the company at large?

Have I communicated the objective to all those people who are involved in the process, are they need to be informed? So, are the short-term objectives consistent with the long-term aims long-term objective of the organization? Is the assumption underlying the objective clearly identified and are the objectives expressed clearly and are they in written format?

Is it only a verbal statement or there is any kind of written statement? So, we need to check again and do the objectives provide timely feedback? What is the instant feedback being received on attainment of the objectives from the managers or from the from peers so, that I can take any necessary corrective measure?

Are my resources adequate enough and authority sufficient for achieving the objective? Have I given the individuals who are expected to accomplish objectives a chance to suggest their objectives? Do my subordinates have control over aspects for which they are assigned responsibility? So, with this, we will move on to what are the characteristics of sound objectives or SMART objectives.

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So, what is the SMART goal? A goal which is specific, measurable, achievable, relevant and time bound is always called a SMART goal because it will not create an adverse impact on the manager, it will not.

If a goal is SMART goal, it will rather motivate subordinate to perform and not demotivate him or her or not create any unrealistic pressure, unnecessary pressure or say it will not create any kind of stress or burnout. So, what is SMART goal, let us define.

SMART goal, the word S means specific. State what you will do use action words. Specific goals are those which can be converted into actionable goals which are which can be attained. Measurable means there can be some metrics or data targets. I will explain each of them in

more details. Achievable means within the scope of the; within the scope of the project, possible to accomplish or attainable.

Relevant is make sense within your job function which is relevant to the specific task which is being assigned, improves the business. Overall, this relevant goal helps in improving the business, improving improvement of the task and the goal should be time bound. So, what is involved? The goal should be action, words or some small targets. Specific that means, there should be some specificity in attainment of objective like what we discussed earlier.

Taking the example of certain goals that we discussed earlier, to achieve a return on investment of 12 percent at the end of current fiscal year. So, it is very specific; that this target should be in return ROI of 12 percent and not 15 percent or 20 percent or more, it is very specific. So, goal should be specific at the end of 1<sup>st</sup> financial year, one fiscal year. Had it been 24 percent at the end of 2 years or 5 years, the goal would have been, would have defined a different timeline.

So, what we discussed now is specificity of the goal. State what you will do through action words and not the fuzzy words. Fuzzy words would have been say more or less the target, some target or few targets, some words which will be abstract in nature, but when you are making a specific goal, you are defining by certain numbers.

Now, moving on to what is measurable. Measurable means provides a way to evaluate what can be measured, what are the action, what are the metrics. Metrics means say suppose if I am saying a particular quantity, what is exactly the weight of the product. So, either you can say 50 grams or 250 grams; you are measuring by a specific number, there are certain metrics, some attributes, metrics or data target, some target points.

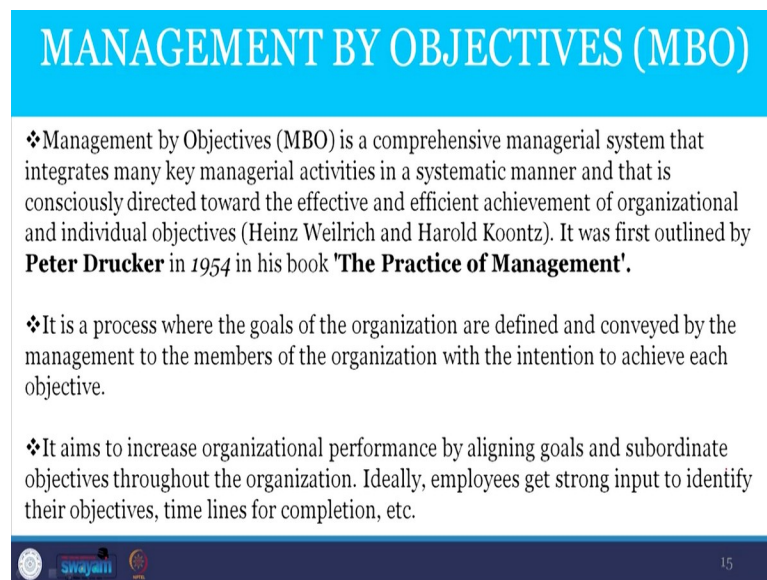
So, this will give you the quantifiable assessment of the goal and then achievable; which should not be very unrealistic. If had I said suppose we want 89 percent of the ROI by the end of the current fiscal year, it the goal should have been something very unrealistic and which would create unnecessary stress on the manager, which would lead to stress and which would lead to burnout.

It would have an adverse impact on the health of the individual. So, when we set goals, the goal should be something which can be attained, something which is realistic not something which is a very imaginative type of goal. So, with this, we would move further to what is

relevant. Relevant means it makes sense within the job capacity, within the job conditions or job function of an individual and with these it will help overall improvement of the business.

Now, the time constraint should also be considered, time bound. There should be some time limit for attainment of goals; state when you will get it done whether by the end of 2 years or whether by the end of 1 year or say 5 years so, you have a long-term plan, you have a short-term plan and so on. So, be specific on the timeline or the deadline of the project.

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## MANAGEMENT BY OBJECTIVES (MBO)

- ❖ Management by Objectives (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 (Heinz Weilrich and Harold Koontz). It was first outlined by **Peter Drucker** in 1954 in his book '**The Practice of Management**'.
- ❖ It is a process where the goals of the organization are defined and conveyed by the management to the members of the organization with the intention to achieve each objective.
- ❖ It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identify their objectives, time lines for completion, etc.

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Moving further, we will discuss what is management by objective and how did the concept of management by objective has evolved, who has given this terminology and what is its relevance, how it is relevant in the present management context and how it will help the business to improve.

So, management by objective is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organizational and individual objectives. This definition has been given by Harold Koontz and Heinz Weihrich and it was outlined by Peter Drucker in 1954 in his book *Practice of Management*.


So, the word has emanated from the definition of Peter Drucker in the book *Practice of Management*. MBO is a process where the goal of the organizations is defined and conveyed by the management to the members of the organization with the intention to achieve each

objective collectively. It aims to increase organizational performance by aligning the goals and subordinates' objectives throughout the organization. Ideally, employees get strong input to identify their objectives, timelines for completion etcetera.

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## THE NATURE AND PURPOSE OF MBO

- ❖ MBO is concerned with goal setting and planning for individual managers and their units.
- ❖ The essence of MBO is a process of joint goal setting between a supervisor and a subordinate.
- ❖ Managers work with their subordinates to establish performance goals that are consistent with higher organizational objectives.
- ❖ MBO helps clarify the hierarchy of objectives as a series of well-defined means-ends chains.



The diagram illustrates the Management by Objectives (MBO) process. It shows a hierarchical structure where organizational goals are broken down into departmental goals, which are further broken down into individual goals. The process involves planning, monitoring, and evaluation at each level. The text 'MANAGEMENT BY OBJECTIVES' is written in the center of the diagram.

So, what is the nature and purpose of management by objective, let us discuss each one of them. MBO is concerned with goal setting. So, the major objective is to set goals and plan for individual managers and their or units, their individual units. So, MBOs main purpose is to set goals can be both qualitative and quantitative goals.

The essence of MBO is a process of joint goal setting. So, MBO is not an individual goal setting, but it's a joint goal setting between supervisor and the subordinate. So, collectively, supervisors and subordinates, they join together to form or to set goals. Managers, as we discussed in the previous section that decision making should always be in consensus which would eliminate any kind of error.

So, joint goal setting would give diverse perspectives to the setting of goals. Managers work with their subordinates to establish performance goals that are consistent with higher organizational objectives. So, MBO helps to clarify the hierarchy of objectives. So, you can give priority to which objective is to be given more weightage as a series of well-defined means and ends chain.



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## THE NATURE AND PURPOSE OF MBO

- ❖ MBO embodies a process that supports and facilitates teamwork.
- ❖ Upward communication must be used to ensure that each executive has a clear picture of where the organization is going and how his or her objectives fit into the whole.
- ❖ MBO relies on a process of self-control and seeks to achieve alignment between individual needs and the goals of the organization.
- ❖ MBO thus seeks to meld *individual freedom and responsibility with organizational performance and results. It rests on a high concept of human motivation and behavior. It is the underpinning for a highly-spirited organization.*

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And MBO embodies a process that supports and facilitates teamwork. So, basically, MBO will be successful when there is an effective teamwork. So, teamwork is the fundamental backbone of achievement of management by objective. Upward communication must be used to ensure that each executive has a clear picture of where the organization is moving towards and how his or her objectives, personal objectives fit into the entire organizational objective.

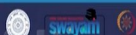
So, every manager should be clear with the goals which has been allocated to him and how his involvement is associated with organizational goal. So, this will give greater intrinsic motivation for a person to perform towards the targets which have been assigned to him.

MBO relies on a process of self-control and seeks to achieve alignment between individual needs and the goals of the organization. So, there should be a kind of consensus between individual goal or alignment of individual goal with organizational goals. MBO thus seeks to meld individual freedom and responsibility with organizational performance and results. It rests on a higher concept of motivation and human behaviour. It is the underpinning of a highly spirited organization.

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## PRINCIPLES OF MBO

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

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So, moving further, we will see how cascading of organizational vision, goals and objectives is done in MBO, specific objectives for each member, participative decision making and explicit time period, performance evaluation and feedback.

So, the MBO principles rests with cascading goals, objectives, specific or objective specificity of objectives of each member, participative decision making, explicit time period, performance evaluation, and feedback is the principle of management by objective.

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## BENEFITS OF MBO

- Better managing ✓
- Clarity in organizational action ✓
- Personal satisfaction
- Development of skills and abilities
- Basic for organizational change
- Encouragement of personal commitment.
- Increases motivation
- Development of effective control
- Improved communication
- Appraisal is more objective and specific



The benefits of MBO: better managing. How we can procure the benefits of MBO? It will help in managing clarity in organizational actions, personal satisfaction, development of skills and abilities, basic organizational change. So, it helps in management, better management of planning, organizing, directing and controlling.

Clarity in organizational actions, as we discussed now, every manager will be very clear with what are the objectives, what are the goals assigned to him. So, he will be more involved in the task, in his assignments, and there would also be a sense of satisfaction because he is clear with that his involvement will lead to greater organizational good.

Development of skills and abilities: there will also be more improvement in the skills and objectives because there would be a sense of commitment towards his goal and he would also try to develop his skills, competency level to be more engaged with the goal and this would help during the change initiatives, organizational change initiatives.

Encouragement of commitment: it will help in commitment, increasing commitment. Increasing level of intrinsic sense of motivation of an individual because there is a sense of belongingness. When you see the clarity in the goals and you see the what is the benefit or reward associated with the goal accomplishment so, that would give a sense of inner satisfaction, a sense of intrinsic motivation and involvement and engagement in the task.

Development of effective control: the person has more control over the goals because he knows that wherever there is a defect, he has to take a corrective action so that the end result is always good, end result is always beneficial.

We will be discussing about some examples in the later discussions where we can see MBO is implemented in quality improvement projects, in cost reduction, cost minimization, improving efficiency, improving level of customer satisfaction so, these goals can be attained if there is an involvement of the personnel involved in the in various activities.

And another pillar of success of MBO is improved communication if there is no communication between the manager and the supervisor, there would be the collective goal achievement cannot be attained. So, the communication has to be very efficient within the members who are working for collective goal attainment.

Appraisal is another objective like performance because the group of individuals are associated in one task. The accomplishment of task is associated with how individuals are involved so, there has to be an effective performance appraisal of the people who are working in a group, their commitment towards the goal achievement as well as their quality involvement can also be appraised through the through performance appraisal so, appraisal will be more objective and specific rather than qualitative.

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So, with this I would like to conclude the session here. Further, we will discuss about the limitations of MBO and failure to teach MBO philosophy like difficulty in goal setting, resentment by subordinates, emphasis on short term goals, inflexibility these are certain limitations.

Failures to give guidelines to goal setters, lack of interpersonal skills of managers these are certain impediments in executing management by objectives, failure to teach the philosophy of MBO to the participants in the process. So, with this I would like to conclude the session here.

Thank you.