

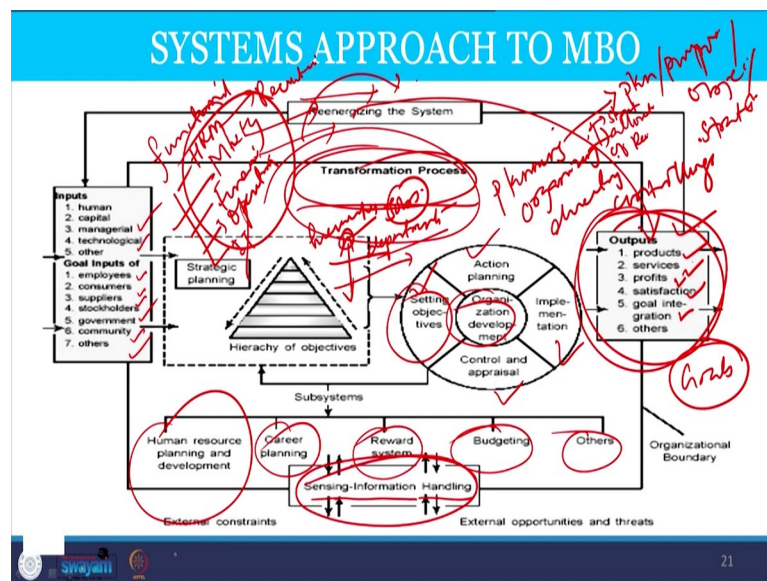
Principles of Management
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Lecture - 24
Management by Objective (MBO) - II

In this discussion, we will be discussing about systems approach to Management by Objective. As all of us know that there are different views of perceiving organizations, there are different models of organizations; one of the most convenient form of perceiving organizations is a systems approach. What is a systems approach? An organization is like an open system. First of all, we will define what is a system.

A system means there is an input, there is a process and there is an output. And inputs to the system are human, capital, managers, technology and goal is employee, consumer, suppliers, stockholder, government community and others.

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So, these are the inputs of any process. And, then in the process there are different phases or there are different management functions. In the transformation process, we will discuss about how these inputs are transformed in the management process into the finished goods or outputs. Outputs in the process are products, services, profit, satisfaction, goal, integration etcetera. So, how this system works? The input is received

from the external environment; it is transformed through various management functions of planning, organizing, directing and controlling.

And through planning, there is a plan or purpose or objective. Purpose or objective being set of strategies being formulated. Organizing is allocation of resources, then setting up a proper organizational structure. So, hierarchy deciding about the hierarchies, hierarchy and order in the organization, departmentalization, departments and the hierarchy is set.

Individuals are allocated different jobs based on their level of competency. So, once each individual is allocated job responsibility, the departments is fixed, then they start executing the plans which have been set by the management. So, the next function that is leading function starts with leader delegating roles and responsibilities, delegating tasks, communicating, motivating, subordinates and then there are some control measures being initiated feedback, feed forward control.

So, the task is the inputs are slowly converted the various functions of management and it is converted into the finished goods or products services, then or it is converted as output. So, in initiating this process, there are various actions or there are various goals beings set up.

And also, as I said that there are different departments or functional differentiations. Functional differentiations in the departmentalization, if you see there are different functional areas, like the marketing, human resource, finance, operations, IT etcetera. So, these functions, these departments will take up each goal, like human resource management department has a goal of recruitment and selection.

Recruiting individuals, assigning different tasks to the individuals, taking care of their personal needs like forecasting, manpower required for the organization in future. And then taking care of the transfers, appraising performance, selection of the right employee, then career planning measures, and then the like benefits and services to be provided or rewards to be allocated to individuals so that the workforce is continuously engaged in improving performance, they will be involved in involved in achievement of the goals or greater goals of organizations. Then, marketing department: the main focus would be to develop a product, to improvise a product, to improve the services, to improve the innovative product, to launch a product on the right time in the market, to improve its

sales, to reach out to customers, to improve the customer relationship. So, that there is a repeat buyer and there is an after sales service.

So, these are various activities of the marketing department, then finance is how to procure finance, allocate the funds to different projects and to take care of, so all these needs of the finance are being taken care of from where to procure, how to allocate budget to different resources to different projects. And also, to take care of that, the fund is properly utilized.

So, the management takes care of improving the efficiency and performance of each of the initiatives, each of the goals which have been initiated by the business. And, then operations will take care of quality improvement, logistics and so on; production, cost minimization, optimum utilization of the resources. So, all these activities, all these are part of the various processes in the transformation of the inputs to output.

And each of the subsystem and all these parts are interdependent on each other. They are not operating in silos, but there is an inter functional interdependence of various parts and each of them set objectives. So, there is goal for each of the departments, each of the functional areas and so, there is which together lead to organizational development or which in together lead to the achievement of organizational goals.

So, it starts with setting of objectives. So, if you look at how there is a systematic approach, for management of objective or systems approach to MBO. So, all these departmental objectives or the organizational objectives, it would start with setting objectives or setting goals. Then, further implementation of action and control and appraisal. There is a continuous appraisal of various projects.

And the subsystems, if we look at, as we discussed the human resource planning and development, if we take one example. So, there is career planning and development, reward system, there is budgeting and other activities involved. So, in all these processes manager has to sense the environment, what is required and they also have to. So, there is a sequence of sensing information and handling. So, it is an interrelated activity and this will lead to for achievement of objectives.

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KEY CONCEPTS IN MBO

- Emphasis on results rather than activities.
- Objectives for specific managerial positions.
- Participatory or joint objective setting.
- Identification of key result areas.
- Establishment of Periodic Review System.

Handwritten notes: "Collective goal setting" with an arrow pointing to a circle labeled "KRA".

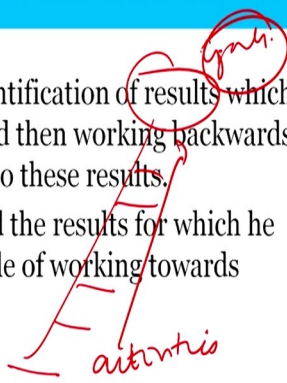
So, the key concepts in management by objective what we discussed is emphasis on results rather than activities. So, result orientation is given emphasis, objectives for specific managerial positions, participatory on joint objective sitting setting. So, management by objective emphasizes on joint goal setting.

Identification of key result areas, the goals will not be set as and when, but there will be a specific goal which will be the goal specified in a specific result area or KRA (key result areas). What are the result areas, where the goal has to be set and there should be a collective goal setting? And establishment of a periodic review system and how much goal is attained in a specific period of time. So, there is a periodic review also.

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EMPHASIS ON RESULTS RATHER THAN ACTIVITIES

- In MBO, the starting point is the identification of results which are important to the organization and then working backwards to sections which activities can lead to these results.
- If the manager always keeps in mind the results for which he is accountable, he can change his style of working towards result achievement.



The diagram shows a hand-drawn ladder. At the top of the ladder, the word 'results' is written and circled in red. At the bottom of the ladder, the word 'activities' is written and circled in red. An arrow points upwards from the 'activities' circle to the 'results' circle, indicating a progression from activities to results.

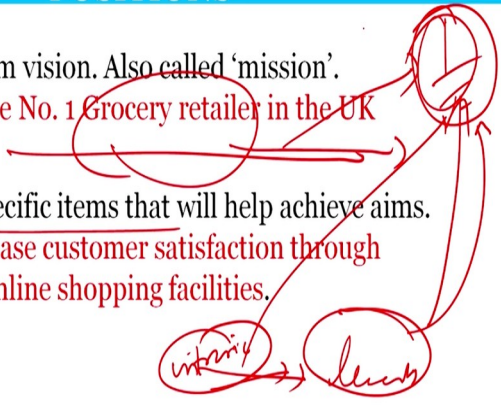
Emphasis on the results rather than activities in MBO, the starting point is identification of results which are important to the organization. And then working backwards to the sections, where the activities can lead to these results. So, first point starts with results.

And, then they do a backward calculation of various activities involved, activities which can lead to the goal setting goal or result setting. So, if manager always keep in mind the results which he is accountable, he can change his style of working towards result achievement.

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OBJECTIVES FOR SPECIFIC MANAGERIAL POSITIONS

- Aims are long term vision. Also called 'mission'.
Example: to be the No. 1 Grocery retailer in the UK
- Objectives are specific items that will help achieve aims.
Example: to increase customer satisfaction through availability and online shopping facilities.



The diagram shows a hand-drawn flow. At the bottom, the word 'intensity' is written and circled in red. An arrow points from 'intensity' to the word 'results', which is also circled in red. From 'results', an arrow points to the word 'aims', which is circled in red. This illustrates the relationship between intensity, results, and aims.

Aims are long term vision also called mission. For example, like what are the goals of an organization. Every organization intends to be number 1 in the specific domain, say a grocery store, retail would like to be number 1. An educational institute wishes to be in the top ten position. So, that motivation to reach the top position, leads or encourages the people to strive to achieve that goal.

So, it gives a kind of intrinsic motivation; it leads towards the goal. So, this intrinsic motivation has to be generated. So, objectives are very specific items that will help achieve aims. If there is no goal specificity like what we said, we want to be in number 1 position. That number 1 position or in the top ten positions in a specific domain or in an industry is a specified goal.

It is specific that helps generate a kind of intrinsic motivation to achieve those goals for example, to increase customer satisfaction through availability of online shopping.

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PARTICIPATORY OR JOINT OBJECTIVE SETTING

- All operating objectives are derived from the corporate objectives by breaking them down into smaller workable and specific functional area objectives.
- MBO these objectives are set by the concerned managers themselves in consultation with their superiors.

Similarly, if you move forward, participatory or joint objective setting. How do we set? All operating objectives are derived from corporate objectives by breaking them down into smaller workable groups.

What are the corporate objectives like customer satisfaction, employee satisfaction, profit return profitability of the firm? Then, quality consciousness or quality innovation,

these are certain quantitative and qualitative goals. Quantitative goals are production targets. Qualitative goals could be customer satisfaction, quality, zero defects.

So, this qualitative and quantitative goals have to be specific. The bigger goals have to be cascaded and broken down into smaller objectives and goals.

The smaller goals and objectives will be clearer to the individual managers, they will be very clear to what is their task so, that they can reach the organizational objective. In MBO these objectives are set by the concerned managers themselves in consultation with the supervisors. The goals are not just decided by the managers.

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KEY RESULT AREAS

- ❖ Most companies have about five key result areas and they are centered on profitability, hiring the right team, user experience, organizational health, customer success rate, and employee engagement score.
- ❖ Each one of these KRAs have additional layers to achieve the specific KRA metric.
- ❖ KRAs are success factors to drive company to deliver value to customers, effectively increasing engagement and driving growth.
- ❖ Leaders derive their areas of focus from the key goals and strategic growth model of their company.
- ❖ Business model defines Key Result Areas.

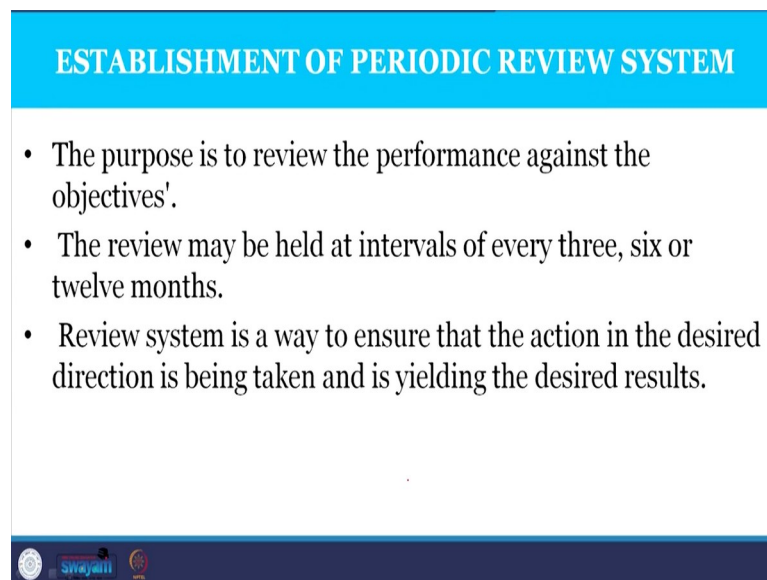
But there is always a consultation; there is a consensus. Now, moving on to what are the key result areas, what we discussed here is the targets are set by the managers in consensus with the top management, but there has to be some key result area where or workable areas which need to be defined.

So, what is that key result area? Most companies have about five key result areas what are those result areas, and their centered-on profitability, hiring the right team, user experience, organizational health, customer satisfaction rate, and employee engagement score. Mostly the customer satisfaction, profit, recruitment, experience =, customer satisfaction, organizational health and well being.

What is the level of comfort within the organization, or organizational strength or the health of the organization, customer success rate or the loyalty and level of employee engagement. So, these are generally the key result areas, each one of the KRAs have additional layers to achieve the specific KRA metrics. These are generally the long term these are generally the result areas, but to know exactly the matrices.

KRAs are success factors to drive a company to derive value to customers, effectively increasing engagement and driving growth. So, leaders derive their areas of focus from the key goals. Key goals and the strategic growth model of their company business models define key result areas.

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ESTABLISHMENT OF PERIODIC REVIEW SYSTEM

- The purpose is to review the performance against the objectives'.
- The review may be held at intervals of every three, six or twelve months.
- Review system is a way to ensure that the action in the desired direction is being taken and is yielding the desired results.

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Now, establishment of periodic review systems, the purpose is to review the performance against the objective. The review may be held at intervals of three, six or twelve months. Review system is a way to ensure that the action is the desired action to be is being taken and is yielding the desired result.

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So, now we will discuss about what are the various steps to be involved in management by objective process. As we discussed, first step is defining the goals, organizational goals, whether it is improving the productivity by 20 percent by a timeline of 2 years.

So, there is a specific goal or improving customer satisfaction and quality improvement. Define employees' objectives, quality improvement; as I will give you one specific example of say, improving the quality of educational programs. If there is an educational institute and it intends to become a or it intends to excel in the field of education or in educational sector it intends to be the number 1.

So, how it is a very qualitative goal, if that that becomes organizational goal excellence in education. How does it convert into employee objectives, what is it is how does it become meaningful to the employee; employee would not understand. What is qualitative, what is excellence in education?

So, there has to be some kind of communication mechanism. And the goal has to be broken down into very simpler goals, which is meaningful to the employee who is working in that organization. So, if I say excellence in education in education; in higher education say suppose, excellence in education because education will have primary education, secondary education and higher education.

If we specifically select what is excellence in higher education. So, let us go back to what are the parameters of higher education. Higher education sector in India mostly they are involved in teaching and learning. Teaching and learning, the second criteria is research; research and publication, then consultancy, consultancy and projects and the last parameter is administration.

So, if we take these four parameters as the certain goals; goals to excel in educational sector. If the educational or otherwise say the defining organizational goals, like excellence in teaching and learning process, research and publications, consultancy and projects and administration. These are the four pillars or four goals, larger goal which is excelling in education.

So, now this has to be communicated to employee goals or converted into employee objectives and goals. What is employee objective and goal? It is still not very clear. So, as if you take the employees in educational in educational industry or educational sector you will have say employees as staff, faculty and people in administration. So, teaching and learning process may be directly related to the faculty, the faculty staff or faculty who are teaching in the institutes.

So, the faculty have the prime job of teaching and improving the learning process. Now, how you can break it even further or make it even smaller goals or specific goals. So, teaching what are the courses they are courses which they are teaching, you can specify the courses; the number of courses per semester. And how they are teaching those courses, what is the methodology of teaching, methodology to teach, how they are evaluating the students.

What is the feedback from student? What is the level of improvement? So, individually you can convey the larger goal to an individual, by breaking it into smaller goals. So, teaching learning process can be taken care of, if the teaching and learning process has been broken down into some measurable matrices and quantifiable measures.

The second point is research and publications; those in the higher educational sector, they are involved in research and publications. So, if you say research what is the level of research, it can be measured through the publications which the faculty has. Publications again is a very relative or a qualitative measure, we can say now if you

really want to make it a specific goal. So, publications- whether it is an international publication in a reputed journal or a national level publication.

International also you can make it publications in a reputed journal, specified by a particular agency and non-reputed journals. And, similarly in a national journal publication, you can also say whether it is reputed journal or non-reputed journals.

So, I wanted to say like rather being giving a fuzziness to the goal setting, the goal has to be very specific and clear. And, then the person who is executing the task will understand how much is possible for him to perform. What is the level he can understand, what he can execute, whether the task is within his capacity, whether his skill or competencies adequate enough to carry out that task?

So, this all this talks about defining employee objectives, then continuous monitoring and progress as I told you that there has to be a feedback mechanism by the organization. There has to be some check and balance regarding the task which has been assigned to the individual. So, there is a constant monitoring to be done so, which will give an assessment of how much of the contribution of individual towards the collective goal or organizational goal.

Then, this feedback mechanism has to be provided, there is a continuous feedback and further there will be performance evaluation by the manager, who has jointly set the goal with the person concerned. So, during the performance appraisal the manager, whose performance is to be appraised has to be given feedback by the various people involved in the process.

This feedback has to be given to the person whose performance is evaluated. And then finally, this will help in improvement of the person. So, these are various steps in management by objective. And, let us discuss each of them in more details defining organizational goals.

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STEPS IN MANAGEMENT BY OBJECTIVES PROCESS

1. Define organization goals

- i. Setting objectives is critical to the success of any company, but also serves a variety of purposes.
- ii. It needs to include several managers in setting goals.
- iii. The objectives set by the supervisors are provisional, which is subject to evaluation and interpretation by management regarding, what the company should achieve within a specified time.

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Setting objectives is critical to success of any company, but also serves a variety of purposes. It needs to include several managers in setting goals. The objective set by supervisor is provisional, and which is subject to evaluation and interpretation by management regarding, what the company should achieve within a specified time.

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STEPS IN MANAGEMENT BY OBJECTIVES PROCESS

2. Define employee objectives

- i. Once the employees are briefed about the general objectives, plan, and the strategies to follow, the managers can start working with their subordinates on establishing their personal objectives.
- ii. This will be a one-on-one discussion where the subordinates will let the managers know about their targets and which goals they can accomplish within a specific time and with what resources.
- iii. They can then share some tentative thoughts about which goals the organization or department can find feasible.

3. Continuous monitoring performance and progress

Though the management by objectives approach is necessary for increasing the effectiveness of managers, it is equally essential for monitoring the performance and progress of each employee in the organization.

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Now, what is employee objective? Once the employees are briefed about general objectives, plan, and the strategies to follow, the managers can start working with their subordinates or establish their personal objectives.

This will be a one-to-one discussion, where the subordinates will let the managers know about their targets. And which goals they can accomplish within a specific time and with what resources, what is the resources being allocated to them. They can also share some tentative thoughts about which goals, the organization or department can find feasible.

And, there is a continuous monitoring of performance and progress: Though the management by objective approach is necessary for increasing the effectiveness of managers, it is equally essential for monitoring performance and progress of each employee in the organization.

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STEPS IN MANAGEMENT BY OBJECTIVES PROCESS

4. Performance evaluation
Within the MBO framework, the performance review is achieved by the participation of the managers concerned.

5. Providing feedback is the most essential step in MBO.

- i. Continuous feedback on the results and objectives, enables the employees to track and make corrections to their actions.
- ii. The ongoing feedback is complemented by frequent formal evaluation meetings in which superiors and subordinates may discuss progress towards objectives, leading to more feedback.

6. Performance appraisal
Performance reviews are a routine review of the success of employees within MBO organizations.

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And moving further we will also discuss about the performance evaluation, within the MBO framework, the performance review is achieved by the participation of managers concerned. Providing feedback is the most essential step continuous feedback on the results. The results they have obtained and the objectives, they will tally what is what was the goal given to them and what is a result achieved by them.

It enables the employees to track and make corrective actions. And, the ongoing feedback is complemented by frequent formal evaluation meeting. There has to be say performance meeting where the manager sits with the employee, and conveys in a very appropriate manner to the employee, about how much is his contribution towards the target or the goal being given..

And what is the shortcoming in the process? The superiors and subordinate may discuss progress towards the individual objective leading to more feedback. So, performance appraisal is the 6th step. Performance review is a routine review of the success of employee with MBO organizations.

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So, we have been discussing about the various steps in management by objective. We started with a discussion of defining organizational goals, defining objectives, and then continuous performance, monitoring of performance and progress, providing feedback and performance appraisal, and evaluation.

So, in the organizational goal setting, we have decide about how the goals are set by the management and it is cascaded into smaller goals. And which is also communicated to the employees who are involved in the process. So, that there would be more goal specificity and goal clarity. And, they can see that their involvement is associated with greater goals of organizations.

Then, we also discussed about what is employee objective, how employee objectives can be set; continuous monitoring of performance and progress. So, continuous monitoring of performance though the management by objective approach is necessary for increasing the effectiveness. It is equally essential for monitoring their performance and progress.

So, there is a corrective action being taken. And then giving them feedback. So, that there is a continuous improvement and finally, there is a performance appraisal. So, with this I would like to conclude this session here and further we will discuss about how MBO is applied in different organizations.

What is the practical implication in manufacturing, and as well as service sector in different functions of management? With this I would like to conclude. How the process of goal setting the various things what we discussed here is about we started with the discussion of the systems approach of MBO. And the participatory or joint objective setting, and key result areas and establishment of periodic review system, and various steps in the management by objective.

Thank you.