

**Principles of Management**  
**Prof. Usha Lenka**  
**Department of Management Studies**  
**Indian Institute of Technology, Roorkee**


**Lecture - 25**  
**Management by Objective (MBO) - III**

Now, I will discuss about application of Management by Objective in performance management system as well as in several other processes in the organizations. So, where to use? First let us discuss about what is the relevance of management by objective? It is a joint goal setting process where the managers set goals and they also involve the subordinates in the goal setting process.

So, with an objective that there is involvement of managers. They will know that what is their role in the goal of the organization. So, that there will be more involvement, there will be more participation and they can also give their voice regarding improvement of; they can suggest improvement and this will lead to a sense of satisfaction.

Because they internalize that there is a kind of development which happens when their voice is being heard, it gives them a sense of intrinsic satisfaction and the this will lead to belongingness towards or a sense of ownership towards the goal. So, with this objective we will see where the MBO concept is used.

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**WHERE TO USE MBO**

- ❖ The MBO style is appropriate for **knowledge-based enterprises** to tap employees' entrepreneurial creativity, tacit knowledge and initiative.
- ❖ Management by Objectives (MBO) is also used by **chief executives** of multinational corporations (MNCs) for their country managers abroad.

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MBO style is appropriate for mostly knowledge-based enterprises. What is the knowledge-based enterprises? The knowledge-based enterprises like which are consultancy firms like the software development and the services. It is also used in manufacturing sector; the objective is to improve performance of organizations.

In the knowledge-based enterprises, the objective of implementation of MBO is to tap the entrepreneurial creativity of the managers by taking their tacit knowledge and initiatives by judging or including their knowledge and initiatives. The managers who are working on those goals, if their views are taken, that would in a way help in developing their potentials.

What knowledge they have, they will share it with their superiors, with their managers. So, in a way it will give them a kind of say, it will help them internalize their sense of self worth, their capability. They will realize that they have the ability to think larger to contribute towards improvement of various processes. Like quality improvement, cost minimization, customer satisfaction.

A diverse perspective can generate and they can be more judgmental, they can give their better ideas towards improvement of each of these processes. Tacit knowledge. Tacit knowledge is the knowledge which resides in the individual through experience, through their learnings, observations.

So, people will start giving their views based on their past experience and in a way, it will help in improving the various processes in organizations. As we have already discussed an organization is like an open system which does not function in silos; the various parts of the organizations, the various elements within the organization, there is an inter functional interdependence of various parts. So, each process will be influenced by the other process.

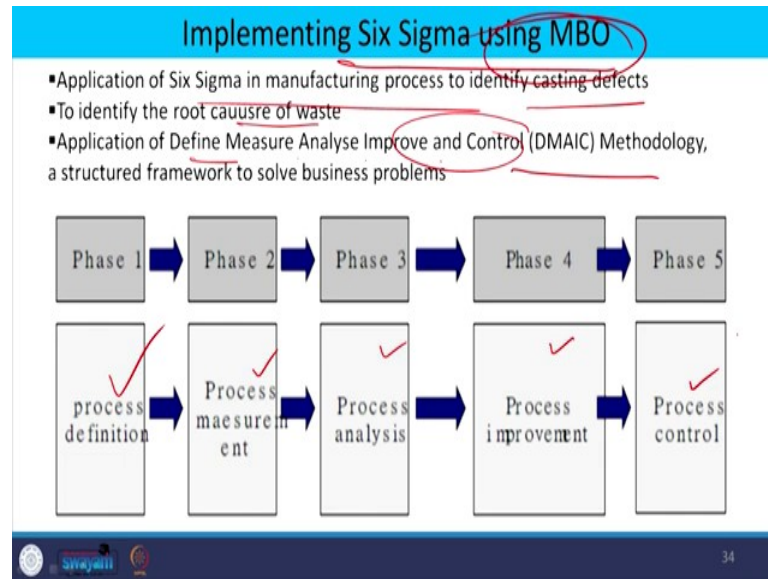
Suppose a new idea is incorporated or a there is a process improvement manufacturing process. There is an improvement which will lead to development of better products, there would be less defects in the product which will further lead to the customer satisfaction, product will have a better brand and there would be more loyal customers.

So, there are sequential steps in the process. Then coming to the next point that is management by objective is used by the chief executives of multinational firms, for their

country managers who are staying abroad. It is also used by all the managers and we will take one example of how six sigma being implemented using MBO philosophy.

So, what is a six sigma? Six sigma is a methodology to improve the quality of the processes.

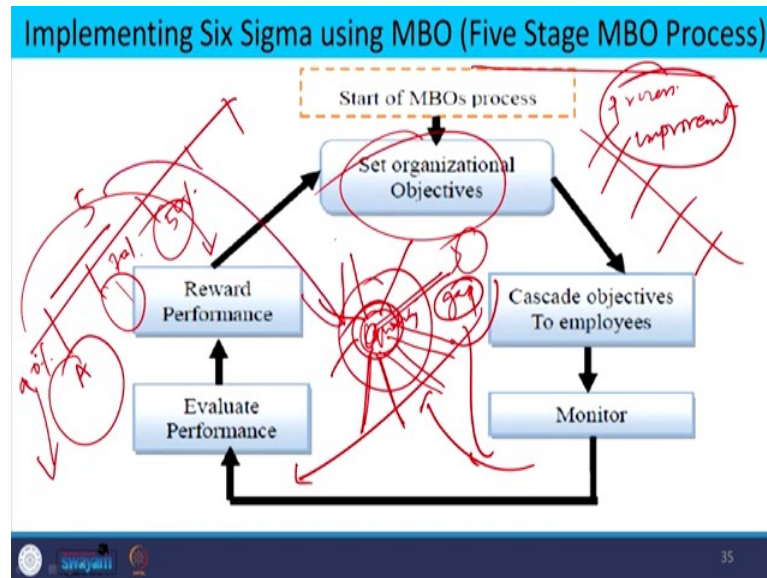
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So, I will discuss about how application of six sigma in manufacturing processes will be used to identify the casting defects and to identify the root cause of the waste. Application of DMAIC methodology will be used in a structured framework to solve business problems.

So, DMAIC is Define Measure Analyse Improvement Control. So, in various phases of the manufacturing process, the first process like the process definition, the second phase is process measurement and process analysis or the fourth process is improvement and control. In all these processes there is a consensus in decision making there is a say, MBO is used and which will help in improvement of manufacturing process where the objective of each process is to identify defects in casting.

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So, implementing six sigma using management by objective, the five-stage process. Say suppose the objective of the process is to improve the process improvement. So, the goal is set in the MBO process, the goal or the organizational objective is set which is cascaded down into smaller objectives for each employee.

So, if you take process improvement as the main objective, it can be broken down into what is the definition of the process. The employees who are working for the first phase, they will first define what is that process whether it is improving the manufacturing of the product.

So, what type of manufacturing are they involved in? What is the definition of the process? Further, how the process is measured and what is the analysis of the process? So, the main the goal is cascaded into smaller objectives and then in each stage there is a constant evaluation and monitoring being done by the managers, their supervisors and they will evaluate the performance of each of them in more details.

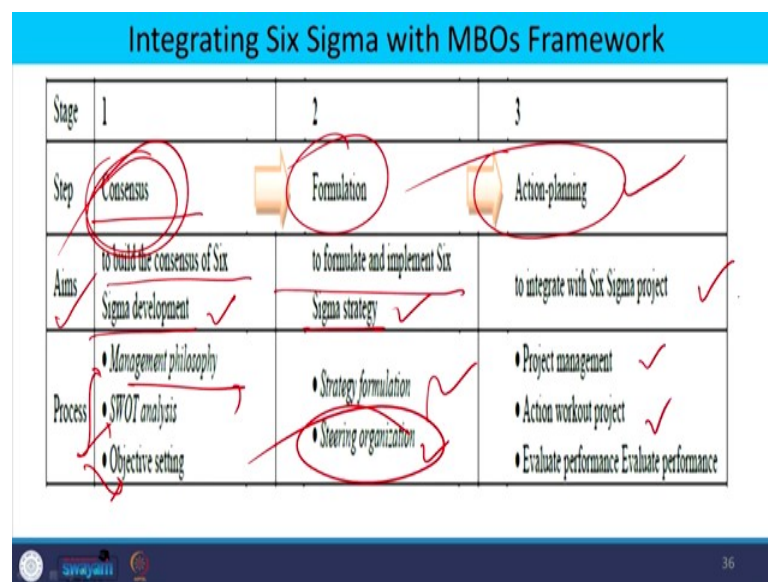
So, wherever there is a problem, there is a constant monitoring of each individual who is working on the process improvement on cost, on quality improvement of the process. So, each one the those who are working in the team, each ones contribution towards quality improvement of the process can be assessed if there is a constant monitoring by the managers.

So, somebody is not able to take initiative or somebody is not able to invest equal amount of effort towards accomplishment of the goal. So, there is a gap being identified by the manager. So, they have to be, their performance will be evaluated accordingly. So, if there are 5 employees who are working on the quality improvement of or say quality improvement of a process in a manufacturing process.

So, everybody would have a different contribution towards the goal of the project and say suppose a person A has invested 90 percent of his effort and has given a result of and has contributed a maximum towards the project goal. Another person has invested 70 percent towards the project accomplishment, then the third person has executive say has contributed 50 percent.

So, there is a constant monitoring and evaluation of performance, then each of them would be given rewards accordingly; based on their individual contribution towards the organizational goal attainment. So, in a way this process is, it helps in evaluating, constant monitoring and rewarding performance of employees.

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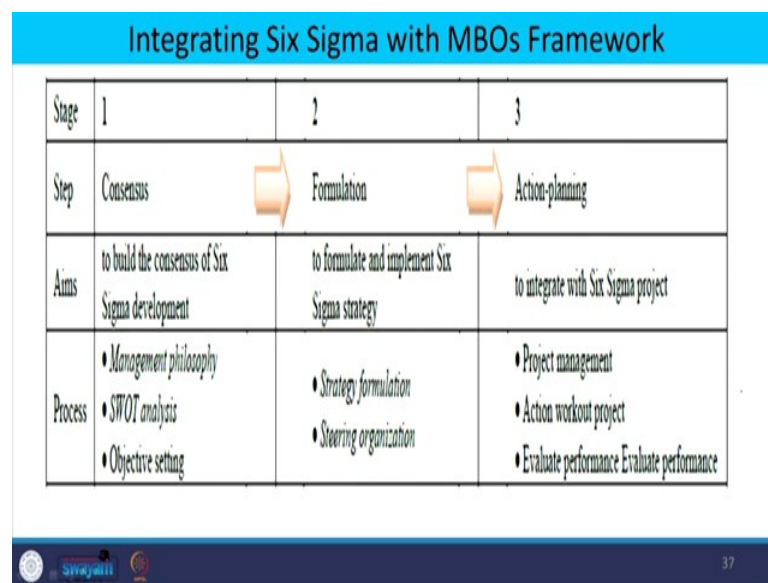


So, there are three stages of six sigma implementation; then first step say suppose is consensus building, say in MBO how this process is done. So, first is consensus building, second is formulation of goals and then action planning. So, there are three stages of six sigma implementation. The first one aims to build a consensus of six sigma development how six sigma can be developed? What are the measures to be taken?

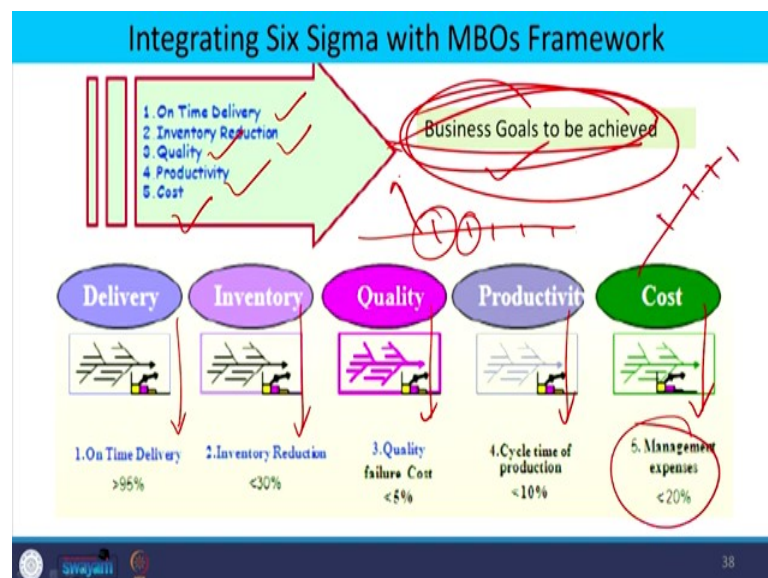
So, the people who are involved in the six-sigma implementation project will suggest their views about attainment of the goal. The process will have SWOT analysis, objective setting, management philosophy. So, all these are the processes. Then the second stage is to formulate and implement six sigma strategy.

What is the strategy for implementation of six sigma? Who are the steering organizations and action; when to achieve or in action planning to integrate six sigma in various projects project management, action say evaluate performance feedback and so on.

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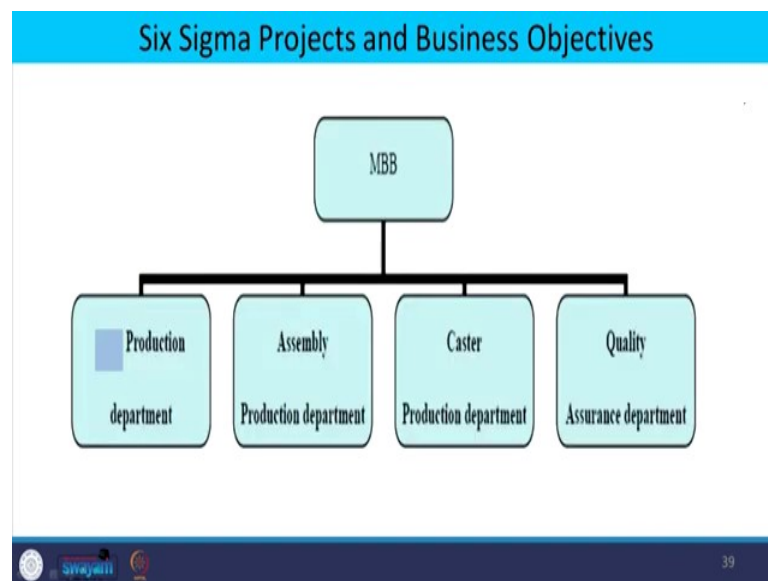


So, what I wanted to say is, when six sigma is integrated in; or say when the business goals are being achieved say, like the goals of timely delivery, inventory reduction, quality improvement, productivity, cost reduction process improvement, all these are the business goals of an organization.

And if you want to improve these goals, then you will have to involve people in and cascade each of these goals into various sub goals so, that these goals can be communicated to the employees who are working in these projects.

So, on time delivery. How to deliver the product on time, what is the goal for inventory management? What is the goal for quality improvement what is the goal for production like what we discussed production goals, reducing cost? So, these goals have to be broken down into sub goals so that which can be very specific, which can be measurable, which can be attainable, timely goals.

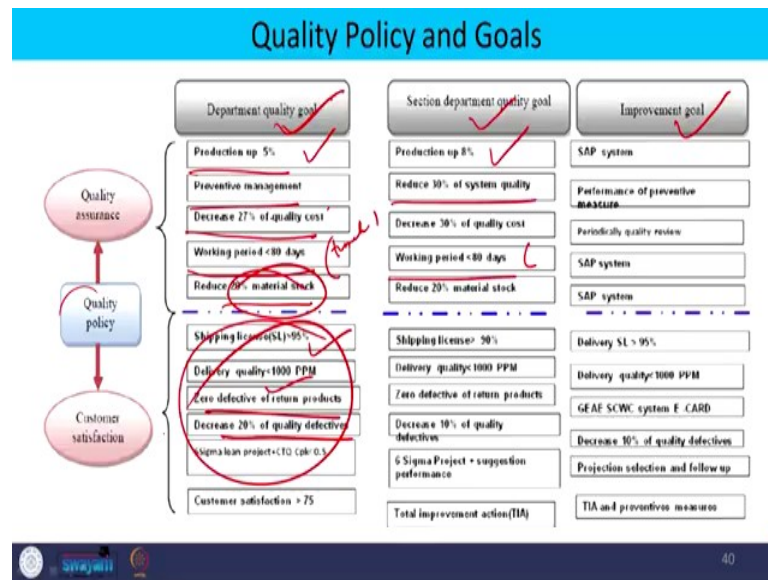
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Six sigma projects and business objectives; like, production department can implement the project six sigma implementation, in assembly in quality improvement and so, on.



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In implementing the quality assurance, customer satisfaction. So, this kind of say department quality goals can be set, section wise departmental quality goals can be set, then improvement goals can also be designed. So, if you want to incorporate quality improvement or quality assurance what should be the quality goal?

Production should be up by 5 percent, preventive management: what is the measure to be taken? Decreasing the quality of the cost, decreasing cost by 27 percent, working period should be the time line or time period can be set reduce 20 percent of resources or material stock.

Similarly, in the section within the department say production can be up by 8 percent, reduce 30 percent of the systems quality, then working period should be less than 80 days and so on. So, this will ultimately help in improving the entire system, it would help in attaining the overall objective of quality.

Similarly, for customers satisfaction, what are the measures for customer satisfaction? Shipping license, then delivery quality less than a certain limit, zero defects in the products, decrease 20 percent of quality defects and so on. So, these are some matrices or certain measures for measuring the qualitative measuring customer satisfaction.



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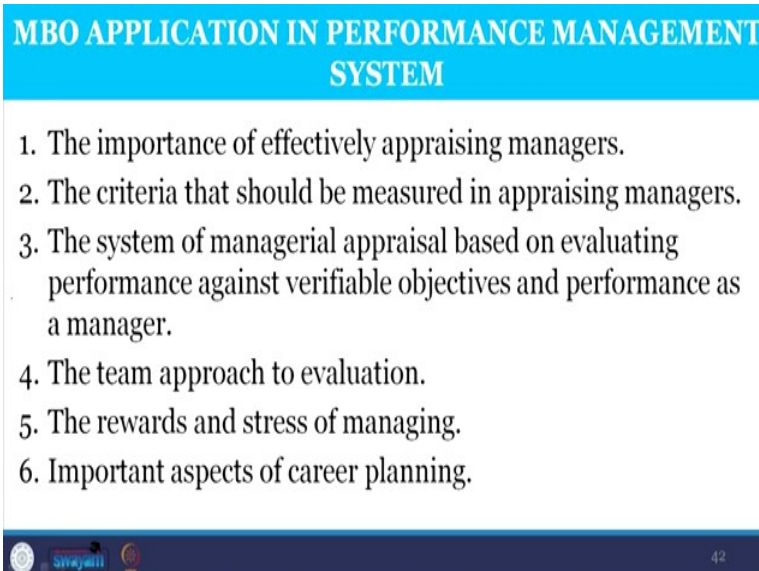
## MBO IN INDIA

- MBO was introduced in India in the early 1970s.
- The Indian company with the longest history of practicing MBO is **Madura Coats.**
- Some of the other companies which have successfully implemented MBO are:
  - Bharat Heavy Electricals Limited,
  - Grindlays Bank,
  - Blue Star,
  - Shaw Wallace & Co.,
  - Glaxo Limited.

SVKM'S Sreyas

So, what I wanted to say is, how MBO is applied in different organizations. MBO was introduced in India in 1970s and the Indian company with the longest history of practicing management by objectives is the Madura Coats. And some of the other companies which have successfully implemented management by objectives are BHEL, then Blue Star, Glaxo limited.

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## MBO APPLICATION IN PERFORMANCE MANAGEMENT SYSTEM

1. The importance of effectively appraising managers.
2. The criteria that should be measured in appraising managers.
3. The system of managerial appraisal based on evaluating performance against verifiable objectives and performance as a manager.
4. The team approach to evaluation.
5. The rewards and stress of managing.
6. Important aspects of career planning.

SVKM'S Sreyas

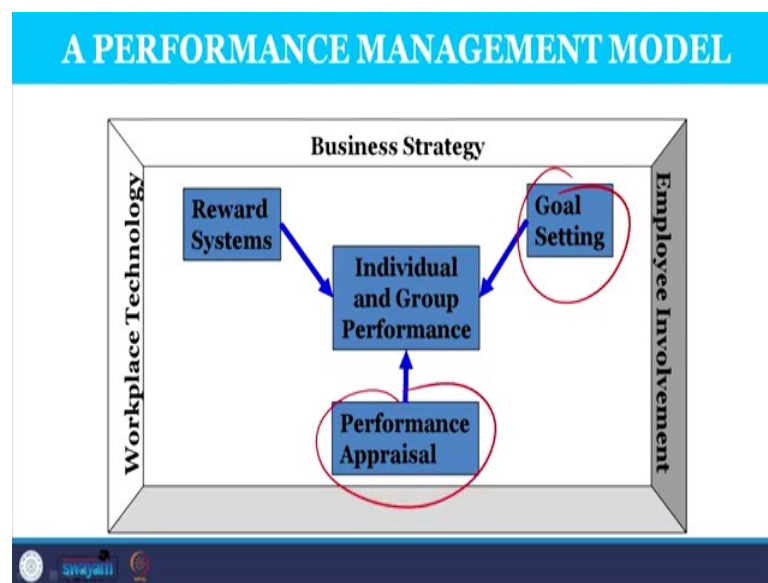
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And MBO application in performance management system: it is also applicable, as I told you, in human resource management function. The importance of effectively appraising

managers performance. Every manager performs, but their evaluation is done through MBO approach, which is where the managers are also part of the process of performance improvement. .

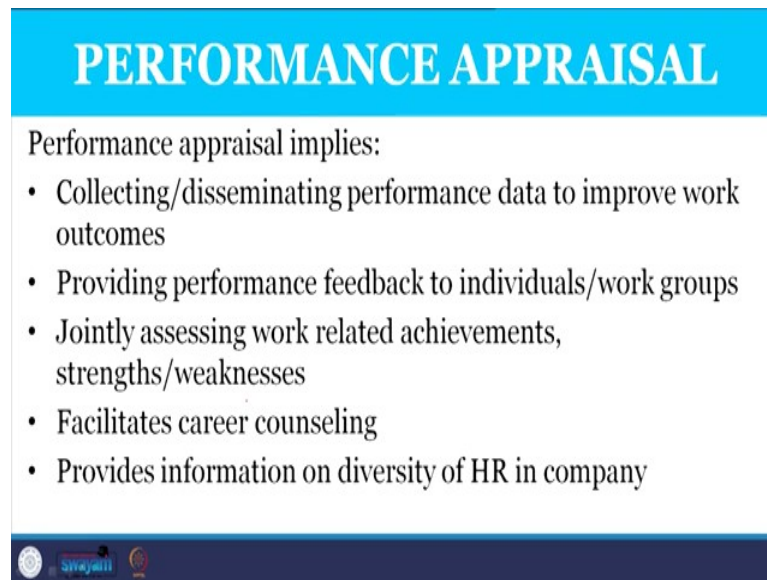
The criteria that should be measured in a pricing manager, the system of managerial appraisal based on evaluating performance, against verifiable objectives the objectives which are SMART, which are quantitative in nature and the team approach to evaluation. The rewards and stress of managing is an important aspect in career planning.

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So, performance appraisal or performance management model consists of collective goal setting and the rewards, collective goal setting, then performance management and rewards assessment. So, individual and group performance can be assessed by through the MBO approach.

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## PERFORMANCE APPRAISAL

Performance appraisal implies:

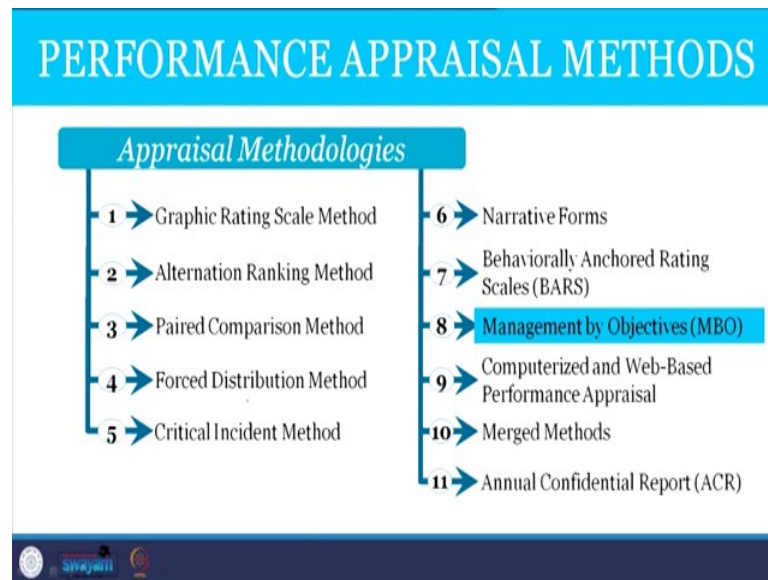
- Collecting/disseminating performance data to improve work outcomes
- Providing performance feedback to individuals/work groups
- Jointly assessing work related achievements, strengths/weaknesses
- Facilitates career counseling
- Provides information on diversity of HR in company

Performance appraisal implies collecting, disseminating performance data to improve the work outcome, providing performance feedback to individuals and groups who are involved in the process, and jointly accessing work related achievements, strengths and weaknesses of individuals.

It facilitates in career counseling. Those individuals whose performance is appraised they are called by the managers and they are given feedback like what are the areas where they can show improvement. So, they can take the feedback, they can take corrective actions and it would help in improving the level of competency of an individual.

So, it is a kind of development of employee potential, provides information on various aspects of competencies of individuals.

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Performance appraisal; there are different types of performance appraisal methods: graphic rating scale, alternative ranking methods, paired comparison method, forced ranking, critical incident method, narrative forms, behaviorally anchored rating scales. And management by objective is one such method of performance appraisal which is largely in use and it includes various stages.


Like selecting the appropriate stakeholder, diagnosing the current situation establishing, the systems purpose and objectives, design the performance appraisal system, experiment with implementation, evaluate and monitor the system. The characteristics of effective performance appraisal is timely, accurate, accepted by users, it has to be understood and focused on critical control points and economically very feasible.

Choosing the right performance or appraisal criteria: appraising against verifiable pre-selected goals has superior value. The system of measuring performance against pre-established objective should be supplemented by an appraisal of manager. And appraising managers against verifiable objectives or you can say quantitative objectives. And network of meaningful and attainable objectives is basic to effective managing.

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### APPRAISING MANAGERS AGAINST VERIFIABLE OBJECTIVES

- A network of meaningful and attainable objectives is basic to effective managing
- Management by objectives must be a way of managing, a way of planning, as well as the key to organizing, staffing, leading, and controlling



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So, whenever the performance of a manager is set, there has to be certain objectives which are targets which have to be conveyed to the managers. So, that they know what they are supposed to accomplish and then against each of the target, their assessment can be done with how much time they require to reach that objective.

What mechanism or means they have adopted to attain those objectives. So, management by objective must be a way of managing, a way of planning as well as the key to organizing, staffing, leading and controlling.

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### APPRAISING MANAGERS AGAINST VERIFIABLE OBJECTIVES

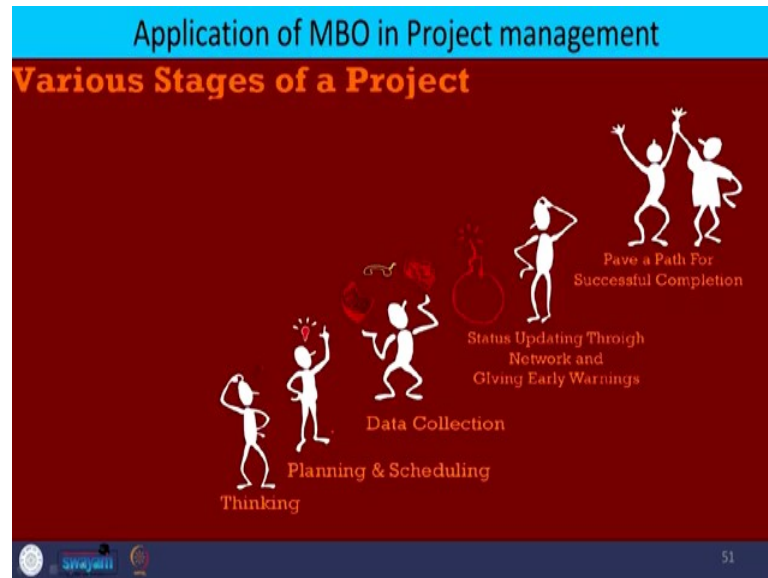
There are three kinds of reviews:

1. Formal comprehensive review,
2. Progress or periodic reviews, and
3. Continuous monitoring

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There are three kinds of reviews that is: formal comprehensive review, progress or periodic review and continuous monitoring.

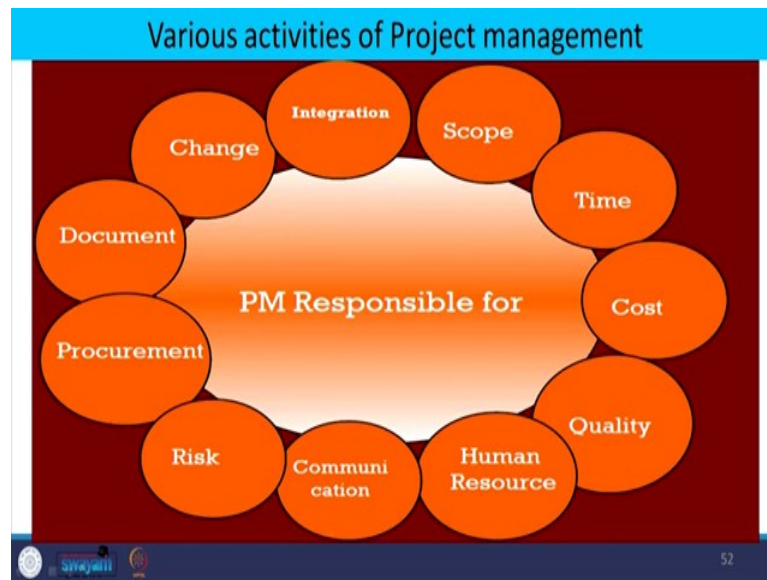
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So, appraising managers against verifiable objectives can be done in this manner. Application of MBO in project management. MBO is also used in project management as we already discussed its application in performance management system.

So, various stages of initiating a project are thinking, planning and scheduling data, collection, then status updating through network and early warning systems or early warnings and pave a path for successful completion.

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### Challenges of Documentation

- 1) Strong Project scope documents and SRS documents
- 2) Clearly defined milestones
- 3) Documented client details
- 4) Documented Handover

An illustration of a spiral-bound notepad with a yellow pencil resting on it. The notepad has the handwritten text "Don't Forget To Document" on it. The entire slide has a dark red background.



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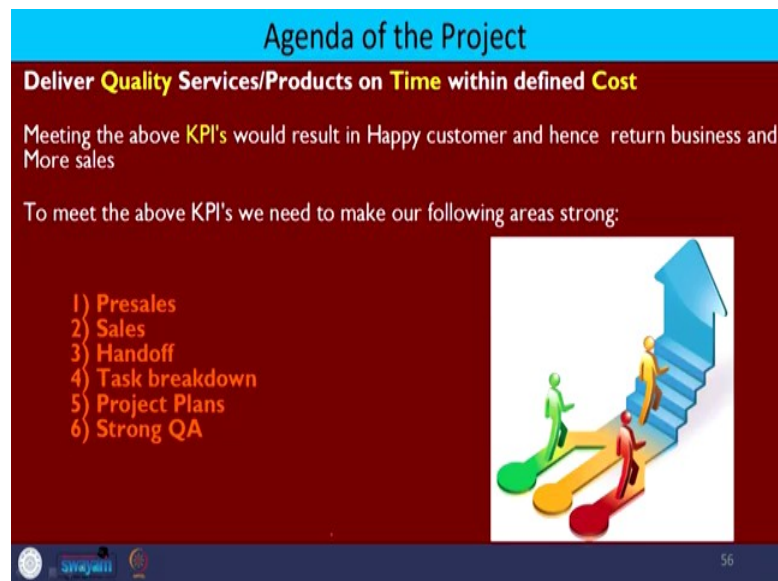
The various activities of project are like change, document, procurement, risk and communication, human resource, quality, cost, time and scope. And challenges of documentation, strong project scope documents and documents clearly defined milestones, document client details, documented handovers. The other challenges are technology, benchmark, the basic ideas of the project, client information, milestones, timeliness and project scope.

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So, happy customers is objective of the project. Say suppose the objective of the project is to deliver quality on time. So, the key performance indicators would be what is a requirement, industry standard, internal queries client feedback. So, with an intention that if the customer is happy the there would be repeat orders and more referral customers would be there.

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The slide is titled "Agenda of the Project" in a blue header. Below the header, the main text reads: "Deliver **Quality** Services/Products on **Time** within defined **Cost**". This is followed by a paragraph: "Meeting the above KPI's would result in Happy customer and hence return business and More sales". Below this, it states: "To meet the above KPI's we need to make our following areas strong:". To the left of this text is a numbered list: 1) Presales, 2) Sales, 3) Handoff, 4) Task breakdown, 5) Project Plans, 6) Strong QA. To the right of the list is an illustration of three stylized figures (green, yellow, and red) climbing a blue staircase that leads up to a large blue arrow pointing upwards. The slide has a dark red background and a blue footer bar containing logos and the number 56.

**Agenda of the Project**

**Deliver Quality Services/Products on Time within defined Cost**

Meeting the above KPI's would result in Happy customer and hence return business and More sales

To meet the above KPI's we need to make our following areas strong:

- 1) Presales
- 2) Sales
- 3) Handoff
- 4) Task breakdown
- 5) Project Plans
- 6) Strong QA

Deliver quality services: how to deliver quality services? If the agenda of the project is to deliver quality services or products on time within a well-defined cost. So, meeting the above KPI Key Performance Indicator would result in happy customers and hence return business and with more sales.

To meet the above key performance indicator, we need to make out the following areas very strong that is what is the presale, what is the sale, what is the task, breakdown, project plan etcetera.

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**Utility of MBO for Project Management**

**Management by Objectives** is to cut down the larger task into smaller ones so they can be managed and worked out easily to achieve the target goal.

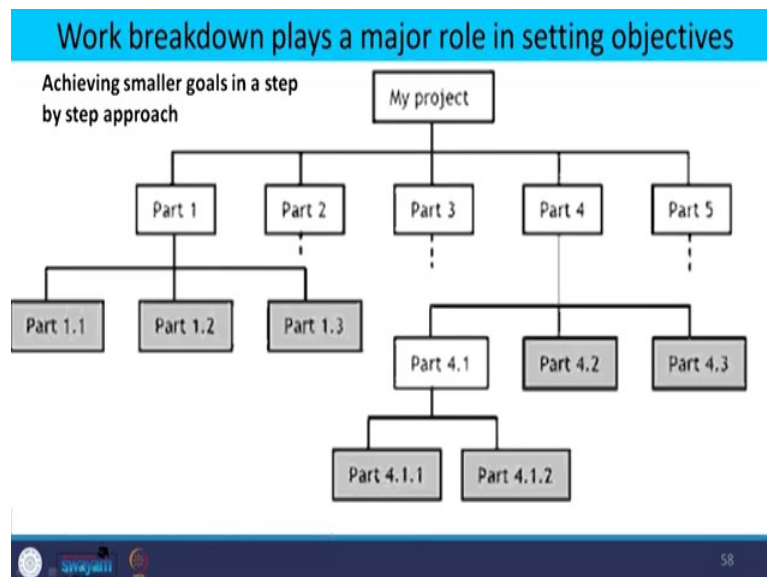


**Utility of PM** here comes to manage the smaller task within team

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Utility of MBO for project management. Management by objective is to cut down the larger task into smaller ones. So, they can be managed and they can be worked out very easily to achieve those target goals. So, it comes to manage the smaller task within a particular time frame within a team.

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How do we break a larger work or a goal into smaller goals which will help in setting goals effectively? Achieving smaller goals in small steps is a step-by-step approach.

So, we cannot just assume that a larger goal will be achieved within a time frame, there has to be a proper breakdown or cascading of the larger goals into smaller goals and sub goals which will be very specific, measurable, attainable or achievable realistic and timely.

Then project management is the discipline of planning, organizing, managing resources for successful completion of goals. So, how project is being initiated? There has to be a plan, a design, implementation and execution of the task. Project organization: what is the project definition in planning stage?

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What we do is a plan has to be first defined project organization, what is the definition of the project, what system is to be installed, what is the level of education to be given or imparted to the people who are employed in the project.

Designing stage: it requires business analysis, conversion analysis, customization, integration and also plotting the task. In implementation stage, product system set up end user requirement and the last stage is system migration production assistance.

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### Objectives of Project Management

- Deliver project objectives within time, resource and budget constraints.
- Identify and clear project issues.
- Identify innovative solutions and approaches.
- Lead teams to motivate and energize talent.
- Sustain a sense of urgency around project critical paths and issues.
- Generate awareness of projects
- Implement strategies to achieve project objectives.
- Deliver to commitments.



The cartoon shows a man in a yellow shirt and black pants standing on a stool, balancing three large blocks labeled 'TIME', 'SCOPE', and 'COST'. A speech bubble from him says, 'The trick to project management is balancing three constraints in one of those management meetings.' Below the stool, three other people are struggling: one is running away from a block labeled 'QUALITY' (with 'KJIAAAA' written above), another is pushing a block labeled 'COST', and a third is holding a block labeled 'SCOPE'. The cartoon is signed 'Doo by Monday' and 'dailymonday.com'.


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So, project management delivers project objectives within a time frame, resource and budget constraints, identify clear project issues, identify innovative solutions and approaches, lead teams to motivate and energize talent, sustain a sense of urgency around the projects critical path, generate awareness, implement, strategies to achieve project objectives.

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### Time Management

- Prepare a baseline project schedule.
- Estimate effort and time.
- Identify resource requirements.
- Schedule project work, gates and milestones.
- Calculate probabilities of meeting project dates.
- Control project schedule.
- Control scope changes and impact to schedule.
- Manage change and revise schedule as required.
- Manage resource utilization.

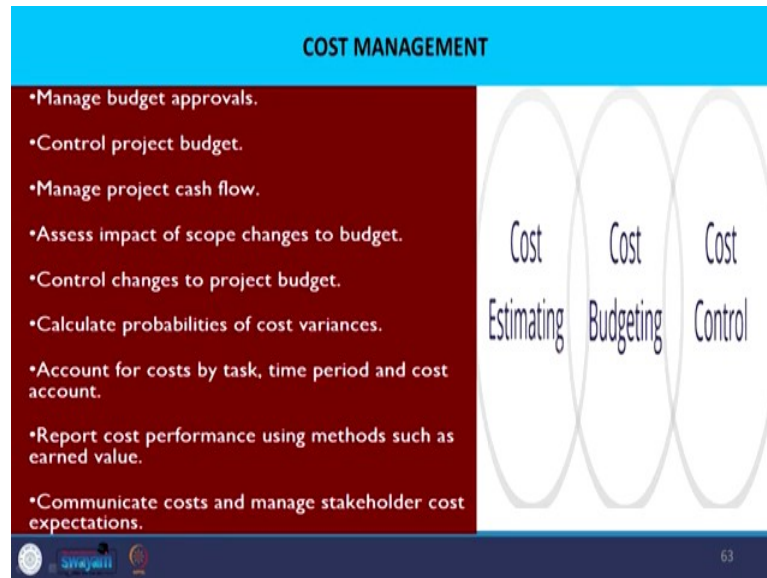


The illustration shows a close-up of a clock face. The word 'DEADLINE' is written in large, bold, red letters across the top of the clock face. The clock hands are visible, and the background is red.

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The time management prepare a baseline project schedule, estimate cost efforts and time, identify resource requirement, schedule project work and calculate probabilities, control project schedule, control scope changes, manage change and revise schedule.

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Similarly, for cost management, if this is the objective of the project. So, how to address to this? How to break it down? So, there has to be a cost estimate, a budgeting and cost control. So, we can manage budget control, budget approval, control, project, budgets. So, these are some sub-activities: manage project cash flow as is impact of scope change to the budget, control changes to project budget, calculate possibilities probabilities of cost variance and so on.

Similarly, in quality management. If quality management is the project is the goal of the project. So, identify quality control standards.



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**QUALITY MANAGEMENT**

- Identify quality control standards
- Ensure project complies with quality control standards.
- Develop a quality management plan.
- Manage quality assurance and Meet Industry Standards
- Measure and report quality of project deliverables.

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So, we can break it down into smaller goals like quality control standards, ensure product the project complies with the quality control standards, develop quality management plan, manage quality assurance, meeting with the industry standards, measure and report quality of project deliverables.

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**RISK MANAGEMENT**

- Identify risks with stakeholders.
- Compare identified risks with lists of well known project risks to ensure completeness.
- Evaluate risk probabilities and impacts.
- Evaluate risk interactions and assess possible risk outcomes.
- Prioritize risks based on probability, impact and stakeholder priorities.
- Identify risk controls.

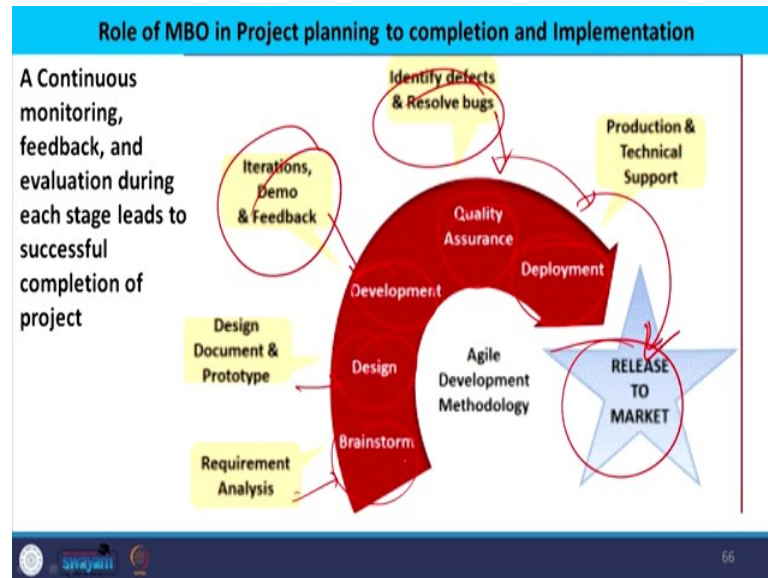
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So, similarly for risk management: if there is a risk management as a goal, it can be broken down into sub goals like identify risks with stakeholders, what is the risk. Compare identified risk with list of well-known projects, evaluate risk probabilities,



evaluate risk interactions with and assess possibilities, prioritize risk based on probability and identify risk control.

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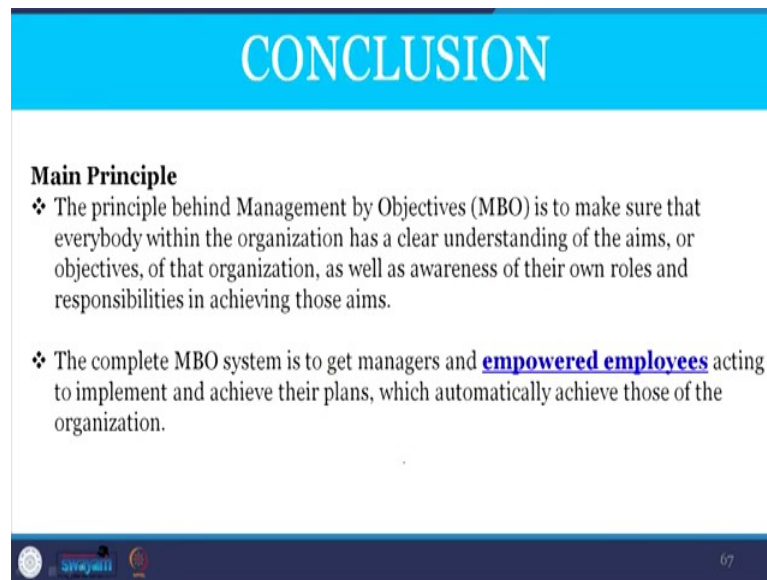


So, what is the role of MBO in project planning to completion and implementation? A continuous monitoring feedback and evaluation during each stage of successful completion of the project, let us start with the initial stage of the development of methodology, brain storming to design development to iterations and demo feedback, quality assurance, deployment and release to the market.

If these are various stages of the project planning to implementation, planning, completion and implementation. In the brain storming session, there is a requirement analysis, in the design stage, design documentation and prototype development is done, in the development phase, several iterations are being initiated to give a like demo and prototype development. And then finally, a feedback is given for improvement and finally, giving a shape to the product.

Identify defects and resolve bugs. In the process of manufacturing there are also various methods of improving the defects, removing the defects and improving the quality of product and production and technical support and finally, it is released the project is initiated and released to the market. So, in all these stages MBO can be applied, MBO is applicable in the entire process.

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## CONCLUSION

**Main Principle**

- ❖ 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.

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So, while concluding the session, I would like to highlight that the main principle of management by objective is to make sure that everybody within the organization has a clear understanding of the aim or objective of that organization as well as is aware of the goal of the organization.

Their role, individual responsibility in achieving those targets and the complete MBO system is to get managers involved in the process and there should be more empowered acting to implement and achieve their plans which automatically achieves those of organizations.

So, what we have discussed in this session is implementation, how MBO is important in implementation of the project, it is also employed in performance management system and lastly, we concluded that what is the main principle behind MBO implementation.

Thank you.