Management By Objectives [MBO]

Idea In Short

Management By Objectives [MBO] is an performance management approach in which a balance is sought between the objectives of employees and the objectives of an organization.

Management by objectives (MBO), also known as management by results [MBR], was first popularized by Peter Drucker in his 1954 book, The Practice of Management1, and subsequently by George Odiorne, one of Drucker's students. MBO received a major boost when Hewlett-Packard adopted the concept as an important part of its The HP Way2.

Criticism

MBO also had its critics the likes of William Edwards Deming, one of Drucker's peers. Deming's complaint was linked to the loose application of MBO principles by organizations and consultants.

> Management by Objectives is the process of defining specific objectives within an organization that management can convey to organization members, then deciding on how to achieve each objective in sequence.

Strategy

MBO Strategy has 3 basic parts:

1. **Objectives:** Employees and their managers mutually set and agree on the objectives. These individuals strive to reach those goals during a normal operating period
2. **Performance reviews:** Managers regularly conduct reviews to determine how

employees are to meeting their goals
3. **Rewards:** Employees receive rewards based on how close they reached their goals

The MBO process consists of 5 steps:

1. **Review organisational objectives:** The manager gains a clear understanding of the organisation's overall objectives
2. **Set employee objectives:** Managers and employees agree on the objectives the employees should reach during the normal operating period
3. **Monitor progress:** Managers and employees regularly check whether the employees are reaching their objectives
4. **Evaluate performance:** Managers judge employees' goal achievements at the end of the normal operating period,
5. **Give rewards:** The employees receive rewards based on the extent to which they reached their objectives

Critical Success Factors

The top management should be committed to the MBO process for MBO to succeed. Furthermore, the objectives should be appropriate for the organisation.

- Managers and subordinates together must develop and agree on each individuals goals
- Employee performance should be conscientiously evaluated against established objective
- Management must follow through on employee performance evaluations by rewarding employees accordingly

For management by objectives to work well, the management must carefully select the right objectives. In addition, managers and employees should not misreport their performance levels as this would distort the system and make it unreliable. Some people argue3 that MBO can be too time-consuming, and that it focuses too heavily on results and at times ignores the necessary process. In other words, it may sometimes fail to show the staff exactly how to improve performance in order to reach the agreed goals.

Summary

The message behind Management By Objectives is the jointly determining and achieving of objectives and being rewarded for these achievements. It is important to make fair and correct assessments of the achievements against the setting of measurable goals. Clear performance indicators are essential for a good management by objectives approach.