

MANAGEMENT BY OBJECTIVE (MBO)

Time Span of Goals and Plans

1. Strategic goals and plans generally involve time periods of 3-5 years.
2. Tactical goals and plans typically involve time periods of 1 to 3 years.
3. Operational goals and plans can be for as short a period as 1 week or as long as 1 year.

Characteristics of Well-Designed Goals

- a. Written in terms of outcomes
- b. Measurable and quantifiable
- c. Clear as to a time frame
- d. Challenging but attainable
- e. Written down
- f. Communicated to all organizational members

Steps in Goals Setting—Five Steps

- a. Review the organization's mission.
Goals should reflect what the mission statement says.
- b. Evaluate available resources.
- c. Determine individually, or with input from others, the goals.
- d. Write down the goals and communicate them to all who need to know.
- e. Review results and whether goals are being met.

Developing Plans

The process of developing plans is influenced by three contingency factors and by the planning approach followed.

1. Contingency Factors in Planning.
 - a. Manager's level in the organization.

Operational planning usually dominates the planning activities of lower-level managers. As managers move up through the levels of the organization, their planning becomes more strategic.

- b. Degree of environmental uncertainty. The greater the environmental uncertainty, the more plans should be directional and emphasis placed on the short term.
 - 1) When uncertainty is high, plans should be specific, but flexible.
 - 2) Managers must be prepared to rework and amend plans, or even to abandon their plans.
- c. Length of Future Commitments.
 - 1) Commitment concept means that plans should extend far enough to meet those commitments made when the plans were developed.
 - 2) Planning for too long or for too short a time period is inefficient and ineffective.

Approaches to Establishing Goals

Goals can be established through a process of traditional goal setting or through management by objectives a. **Traditional goal setting** is defined as the process whereby goals are set at the top of the organization and then broken down into sub goals for each level in an organization.

- 1) Top managers are assumed to know what's best because they see the "big picture."

- 2) These goals are also often largely non operational.
- 3) Specificity is achieved as each manager applies his or her own set of interpretations and biases.
- 4) However, what often results is that objectives lose clarity and unity as they move from top to bottom.
- 5) When the hierarchy of objectives is clearly defined, it forms an integrated **means-end chain** in which higher-level objectives are linked to lower-level objectives. These lower-level objectives serve as the means for the accomplishment of the higher-level objectives. And the goals at the lower levels (means) must be achieved in order to reach the goals at the next level (ends.)

Goal setting has some potential pitfalls

1. Setting difficult goals increases the **risk** that they will not be reached.
2. High goals may increase the **stress levels** of organizational members.
3. Failure to meet high goals may undermine the **self-confidence** of organizational members.
4. **Non goal areas** may be ignored.
5. Setting goals may encourage excessive **shot-range thinking**.
6. Inappropriate goals may lead to **dishonesty and cheating**.

Management by Objectives

Management by objective (MBO) is a process through which specific goals are set collaboratively for the organization as a whole and every unit and individual within it; the goals then are used as a basic for planning, managing organizational activities, and assessing and rewarding contributions.

In Management by objectives (MBO) specific performance goals are jointly determined by employees and their managers, progress toward accomplishing these goals is periodically reviewed, and rewards are allocated on the basis of this progress.

- 1) MBO was first described by Peter Drucker and consists of four elements:
 - i) Goal specificity
 - ii) Participative decision making
 - iii) Explicit time period
 - iv) Performance feedback
- 2) MBO makes objectives operational through the process by which they cascade down through the organization.

Although there is considerable variation across organizations, MBO processes typically include six steps.

1. Organizational goals are developed based on organizational missions.
2. Specific goals are established for departments, subunits, and individuals.
 - a. In the top-down process, upper-level managers, conferring with their immediate managerial subordinates, formulate specific objectives for their areas of responsibility. These in turn enter into the formulation of objectives for the next level down, and so forth.
 - b. In the bottom-up process, operational goals are proposed by lower-level managers on the basis of what they think they can achieve. These in turn are developed into tactical and finally strategic plans.
3. Action plans are formulated, describing what is to be done, how, when, where, and by whom in order to achieve a particular goals.
4. Individuals are given the responsibility of reaching their objectives and that goals will ultimately be met.

5. Performance is appraised at the end of the goal-setting cycle, typically at one-year intervals. Praise, recognition, and rewards should be given for effective performance.

The **strengths** of MBO are that it

1. Aids coordination of goals and plans.
2. Helps clarify priorities and expectations.
3. Facilitates vertical and horizontal communications.
4. Fosters employee motivation.

The **weaknesses** of MBO are that it

1. Tends to falter without strong, continual commitment from top management.
2. Necessitates considerable training of managers.
3. Can be misused as a punitive device.
4. May cause overemphasis of quantitative goals.

The “spirit” of MBO is tremendous. In practice however, MBO has been successful only about 20 to 25 percent of the time, primarily because of lack of support from top management and poor goal-setting and communication skills.