
UNIT 8 MANAGEMENT BY OBJECTIVES (*MBO*)

Objectives

- To understand the concept of Management By Objectives
- To develop familiarity with the key concepts of MBO
- To understand the process of MBO
- To understand the various benefits and limitations of MBO
- To familiarise you briefly, with some of the successes and failures associated with MBO in India.

Structure

- 8.1 Focus of Decision Making
- 8.2 Evolution of MBO
- 8.3 The need for MBO
- 8.4 Definitions and Concepts
- 8.5 The MBO Process
- 8.6 Ensuring Successful Implementation of MBO
- 8.7 Benefits of MBO
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8.1 FOCUS OF DECISION MAKING

When a manager takes a decision the purpose is to increase either the efficiency or the effectiveness of the existing operation, or increase both efficiency and effectiveness; Efficiency is the best way of performing a task. Formally, efficiency is defined as the ratio of output to input. The more output that can be obtained from a given input, the more efficient is the utilization of the input.

While efficient refers to the right or best way of doing a particular task, effectiveness is concerned with doing the right task. However efficient a manager may be at performing his tasks, if the choice of tasks itself is not right; his efficiency is certainly not helping his organisation. A sales manager is very efficient in managing the time of his sales force and ensures that each salesman makes at least six to seven sales calls every day. But wrong identification of potential customers makes the salesman's calls totally ineffective as no sale is actually made.

The manager's concern should always be to increase his own effectiveness and that of the total organisation. An organisation which concentrates on doing the right tasks, i.e. its focus is on effectiveness, will surely survive and grow even if it performs the tasks in a somewhat less efficient manner. But a firm whose choice of tasks is totally wrong, no matter how high its efficiency, will certainly fail.

Management By Objectives (MBO) is a tool by which managers can improve their performance and increase their effectiveness.

8.2 EVOLUTION OF *MBO*

The term MBO was coined by Peter Drucker more than 25 years ago. Drucker used the term. in a very broad sense to connote not just a specific tool, but rather an approach or philosophy of management. Later contributors to the subject have



focused on MBO in terms of improving performance of either an individual in the context of a superior-subordinate relationship or the entire organisation. In the United States, the name most associated with MBO is that of George Odiorne and he stresses the superior-subordinate relationship and propounds MBO as a "guide for operating the unit and assessing the contribution of each of its members". John Humble of U.K. visualises MBO as a "system which integrates the company's need to achieve its goals with the managers need to contribute and develop himself" and consequently places greater emphasis on corporate planning.

8.3 THE NEED FOR MBO

At this point you may like to raise the question "Why do we need MBO?" Why should an organisation, which has been performing well all these years, now turn its attention to MBO and go through all the problems involved with its introduction? The answer to this lies in the very nature of an organisation which tends to draw attention away from, rather than towards, the common organisational goals. Specifically there are four factors inherent in each organisation which are barriers towards the achievement of the organisational goals. These are: specialisation of work; misdirection of effort by the boss; hierarchical structures of management; and misdirection by compensation. Thus there is need to unify the efforts of individuals towards achievement of corporate goals. This unifying force is provided by MBO.

Today's technological sophistication requires specialised knowledge, specialised skills and specialised workers. The danger is that these specialised workers, in their quest for perfection within the narrow confines of their specialised function, often tend to lose sight of the organisational goals. They forget they are working for an organisation, and that their specialised function has to operate within specified parameters. MBO helps to mesh together the various functional specialists for the achievement of the firm's overall objectives.

The compensation and appraisal system tends to act as a deterrent towards achieving organisational goals. This is because there is a tendency for people to 'please the boss' even in the most objectively designed appraisal system. People tend to take even the most casual observation or remark of the boss seriously and work to please him because they know that the boss plays an important role in their promotion. And organisational goals are relegated to the back seat. MBO brings in greater objectivity with its emphasis on results.

In every organisation there are various hierarchical levels of management. Each level has its own vision and own set of narrow objectives to fulfil. Often these levels are totally insulated from each other. This creates barriers towards harmonious working together for achieving the organisational goals. For instance, the machine operator would like to maximise his production and minimise the number of rejects and his interest is limited to the machine he operates. The shop floor supervisor is concerned with all the machines and is interested in maximising the total output with maximum utilisation of various inputs. In achieving this objective, the supervisor may like to minimise the operation of an inefficient machine. However, the operator of that particular machine would not like that. If there is agreement about the overall organisational goals which have to be achieved, this kind of conflicting pressure can be avoided.

Finally, the compensation system can often create situations in which people work towards maximisation of their compensation, often to the detriment of achieving the organisational goals. If the machine operator's compensation is tied to the output which he produces on the machine he would obviously like to produce the maximum numbers, disregarding the factor of inefficiency, wastage, rejects, etc. Similarly, a salesman would like to book maximum orders irrespective of the fact whether the payment is made promptly or not. But at the organisational level, the concern is not only with output and orders booked, but equally with the costs incurred and realisation of payments. Only when objectives are specified for each person, drawn from and contributing towards the organisational goals, with emphasis on team work, can these forces of separatism be minimised.



8.4 DEFINITIONS AND CONCEPTS

For our purpose we shall define MBO as an approach which uses objectives as a focal point to improve managerial performance and managerial effectiveness, both at the individual and at the organisational level. These objectives serve to guide, direct, review and measure performance. However, MBO should not be thought of as merely a tool for performance appraisal. It is a far more comprehensive mechanism and provides a framework for organisational and managerial decisions.

In the MBO approach while the objectives provide the focal point, the emphasis is on improving the performance and providing better results. This is because MBO is concerned with achieving the objectives as well as the process by which they are achieved. The objectives will necessarily vary with the managerial level at which they are set. Objectives at the level of the managing director will be different from those of a branch manager or the production manager. However, all these objectives are derived from the organisation's overall objectives and in turn are linked to the corporate plan. The fact that MBO allows for distant, intangible organizational - objectives to be converted into achievable, personalised objectives (for each level of management) is the reason for its success and popularity. The key concepts in MBO are emphasis on results than activities, objectives for specific managerial positions, participatory or joint objective setting, and identification of key result areas and establishment of periodic review system.

Emphasis on results rather than activities

The basic feature of every MBO is the emphasis on results rather than activities. Activities, *per se*, are never important. Their importance lies in the fact that they lead to results. If an activity produces no results, it may just as well be dropped, for obviously it is only consuming time and resources with no output.

In MBO, the starting point is the identification of results which are important to the organisation and then working backwards to see which activities can lead to these results. George Morrissey has identified "management by activities or reactions" and "management by objectives and results" as the two theoretical extremes. Traditionally, management was characterised by activities. Even today you may find this happening in many cases. For instance, most job descriptions are spelled out in terms of activities, such as travelling, meeting people, corresponding, etc, rather than results. It is this disproportionate focus on activities which leads to the situation where apparently all managers are very busy but are not able to achieve any significant results.

To shift from an activity-oriented to a result-oriented management system is not always easy. Engaging in activities gives a lot of satisfaction to most people even when they know that its result contribution is very low. The more visible is the activity, such as preparing graphs, charts, etc. the greater is the satisfaction. The other reason why people derive satisfaction from engaging in activities is because sometimes the gap between activities and results may be so long and uncertain that keeping a constant focus on results may be very difficult. Urgent, pressing problems arising out of crisis situations or out of the need to meet deadlines such as drawing up of balance sheet by the end of the financial year require immediate activity which is unavoidable. However, if the manager always keeps in mind the results for which he is accountable, he can change his style of working towards result achievement.

Objectives for specific managerial positions

In the context of MBO, objectives are defined as expected results. Objective must be specified for every managerial position at each, level of the managerial hierarchy. Objectives are set for specific managerial positions and not for the individuals who occupy these positions.

Irrespective of whether it is Mr. K.D. Das or Mr. R. Venkat who is manager of after sales service, the objective of the managerial position still will remain the same. It is important to specify objectives according to managerial positions to ensure the continuity of effort in the achievement of organisational objectives. The only exception to this is in the case of top management. When a company changes hands



or a new managing director is appointed it is likely that he may like to modify or even totally change some of the existing corporate objectives and provide a totally new direction to the organisation. In such a situation, objectives for all the managers may have to be modified or changed.

There are three distinct levels of management in every organisation. these are: the top management, middle management and operating management. Objectives must be specified for each level of management. At the top management level the objectives are referred to as corporate objectives and they provide the general direction for the entire organisation. Since their scope extends to the entire firm, corporate objectives necessarily encompass a span of five to ten years. Predictions of future events can never be made with complete certainty and therefore the corporate objectives are specified more in general rather than very specific terms. Corporate objectives are externally oriented as they are derived from the external environment in which the firm operates. This environment comprises economic, technical, legal, social, cultural, political and demographic factors as well as consumer tastes, attitudes, competition, etc. Thus a company manufacturing mopeds may well define its corporate objective as satisfying the short distance transportation needs of middle income classes.

The corporate objective must be broken down into more specific objectives to become practical and workable for the middle management. Managers of functional divisions and geographical territories represent the middle management. In case of the moped company, the objective at the middle level i.e. marketing manager may be to achieve sales figure of 85,000 mopeds per year by March 1988, and 60 per cent of this sale is to be achieved in the southern region since the company is located in Bangalore.

Area sales managers, shop-floor production managers, and managers of inventory control are all representative of the operating management level. Objectives at the operating level are concerned with the short-term, such as sales per month, production level per machine, etc. Operating level objectives are derived from the objectives of the middle management level which in turn are derived from the corporate objectives. Objectives at different levels and in different functional areas are linked to each other. To reach the sales figure of 85,000 units, production must also be set correspondingly at 86,000 units (allowing 1000 for defective and rejects). Apart from this hierarchy of objectives and their linking with each other, there is also the need to rank them in order of importance. The more important objectives must first be fulfilled before moving on to the next most important objectives. This is necessary because the resources and time at the disposal of the organisation are limited and simultaneous fulfilment of all objectives is not possible.

To be truly workable, objectives must be measurable in specific terms such as quantity, time, cost and quality. An objective which simply states 'improve quality' is not useful because it does not specify up to what level and by what time, and at what cost. In case of such vaguely stated objectives it is impossible to measure their attainment. To be achievable, objectives must be set realistically, taking into account all the strengths and weaknesses of the existing situation. Objectives which are set at an unrealistically high level will only serve to frustrate the people for whom they are set. Similarly, objectives which are set too low are also not desirable.

Activity A

List the corporate objectives of your company and following the MBO sequence identify your own objectives. Also identify the objectives of your immediate superior and subordinate.

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Participatory or joint objective setting

We have seen that all operating objectives are derived from the corporate objectives by breaking them down into smaller workable and specific functional area objectives. In an organisation practicing MBO these objectives are set by the concerned managers themselves in consultation with their superiors. The emphasis is on participation of the concerned manager himself. The participation process allows the manager to exert his influence on those very objectives and decisions against which his performance will be measured. This participation ensures that the objectives set are realistic since the manager is in direct contact with the market, labour, production facilities, etc. and knows the true situation. Since the objectives are realistic and set in agreement with the concerned manager their chance of being attained is also higher.

Identification of key result areas

Every managerial position has associated with it certain results or outputs. However, it is the achievement of only a few result areas that is critical to the organization's success and these are known as key result areas. For instance, the various result areas for a production manager may include quality, quantity, adherence to delivery schedules, rejects, wastage, inventory, labour costs, material cost, machine down time, etc. Depending on the nature of his organisation and industry, the production manager will identify his key result areas. In an industry, where the raw material and machinery are the major cost contributors, the manager's key result areas may be raw material cost, wastage and machinery utilisation. On the other hand, in an industry like television set manufacturing, where assembly is the major operation, labour costs, critical component costs, and quantity may be the key result areas. Similarly, in other functional areas the key result areas can be identified. In marketing, these may be related to sales, new markets, new customers, marketing research, distribution, pricing policy, media advertisements, local sales promotion plans, etc.

Just as key result areas (KRAs) can be identified for different functional areas, these can also be identified at the organisational level. For instance, Modi Xerox, a company engaged in manufacturing and marketing photocopiers views itself primarily as a service organisation and emphasises the after sales service aspect. In contrast, other companies may view their business as mainly manufacturing. While service is obviously one of the important key result areas for modi Xerox, it may not be so for its competitors.

There are KRAs which are common to all business organisations' and all managerial positions irrespective of the functional area or industry. Peter Drucker has identified eight such KRAs common to all firms. These are: profitability, market standing, innovation, productivity, worker performance, financial and physical resources, managers' performance and development, and public responsibility.

W.J. Reddin has identified five KRAs which are common to all managerial positions. These are: subordinate development, innovation, project implementation, managerial development and systems implementation.

In 1978-79, Madura Coats, a company engaged in manufacturing and marketing of a variety of threads and yarns had identified its various KRAs as financial resources, profitability, and development of organisation, management development, labour relations, diversification and cotton, development. In the same year, Gujarat Industrial Development Corporation, a state government: agency for encouraging and assisting industrial development, had identified its RAs as capacity utilisation, cost reduction, resource mobilisation, organisation development,, customer service, infrastructure planning and development, diversification, corporate image and rural industrial infrastructure.

Identification of key result areas helps the manager and the organisation focus its scarce resources on those activities which contribute to the critical results. Focusing is important because, in most cases, all managerial activities do not equally contribute to results. In the course of an average day, a manager may indulge in a number of activities such as meeting people, sorting out employee's grievances, planning for products to be launched in the next year, reviewing last month's



expense sheet, etc. While sorting out personal grievances and meeting unexpected visitors- may be unavoidable and urgent, it is activities such as future planning which are important and contribute to results.

Key result area can be identified by asking the simple question: what is the unique contribution of my job or the organisation? The answer to this question will provide the clue to identifying the key result areas. Once identified, these KRAs may remain unchanged for a number of years. These may change when the scope of the managerial position or organisation is changed or if a subordinate has been developed to take over an existing KRA so that it is no longer in the purview of the manager's responsibility. As is the case with objectives, so also the KRAs at the corporate level are more durable than those at the middle and operating management levels.

Establishment of Periodic Review System

An important feature of every MBO is the periodic review system. The review may be held at intervals of every three, six or twelve months. The purpose is to review the performance against the objectives'. Also, the validity of continuing with the pre-established objectives may be reviewed.' An organisation which professes to follow the MBO approach but has no review system is only paying lip service to MBO without actually practising it. Objectives are useful only if they can initiate action and the review system is a way to ensure that the action in the desired direction is being taken and is yielding the desired results. The review system thus provides a mechanism for both measuring and controlling.

MBO should not be confused with a performance appraisal system. There are many elements which are common to both, but MBO is wider in both the concept and application than a system of performance appraisal. Without going into too many details, it would be useful to point out one major difference between the two. In performance appraisal, the emphasis is on simply reviewing the past, while in MBO the focus is on initiating future corrective action. Though MBO may also be used for performance appraisal, you must remember that this is not its main purpose. The purpose of MBO is to improve managerial performance and effectiveness.

Activity B

Identify the various possible key result areas in your organisation. In case these are already identified, analyse whether they are adequate, inadequate, or excessively identified.

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8.5 THE MBO PROCESS

There are three steps involved in the MBO process. These are setting objectives in each key result area, action planning, and performance review.

Setting Objectives

Key result areas are usually more durable than objectives. While KRAs delineate the broad areas within which the organisation must focus its attention, the objectives represent the specific results expected to be achieved within these KRAs.



Thus the first step is to identify the KRAs and pin responsibility for results with specific managerial positions. Making people responsible for KRAs is a very critical step for translating MBO theory into practice. KRAs and the persons responsible for them must be identified at the level of the entire organisation as well as each functional area.

Having identified KRAs, the next step is to set objectives within them. At the organisational level, these will be the corporate objectives. Corporate objectives define the purpose and mission of the organisation and can be described by seeking to answer the question 'what is our business'. Following out of the corporate objectives are the long and short-term strategic objectives. Five to ten years is the usual time horizon for long range plans while anything between three to five years describes the short-range. Strategic objectives spell out those objectives related to choice of product, market and technology. Derived from these are the unit level objectives in the case where an organisation consists of several different business units.

Action Planning

Planning enables the objectives to be turned into reality. If objectives describe the 'what', plans describe the 'how' or the way in which the objectives are to be achieved. Managers are paid to achieve certain objectives. The objectives can be achieved only if the manager converts them into specific action plans spelling out the various steps or activities to be performed and the specific time within which these must be performed.

There are four broad steps involved in every action plan:

- Choosing strategies which are appropriate to the objectives
- Assigning responsibility for achieving the objectives
- Allocating resources for achieving the objectives
- Scheduling specific activities to achieve maximum utilisation of resources.

Activities form the basis of every plan. Activity refers to the thing or series of acts which have to be done in order to achieve the objective. Further, these activities have to be arranged sequentially in the most logical manner and a time frame has to be specified for the completion of each activity. This is known as scheduling. It is only when this has been done that the plans get converted into 'action' plans.

There are many techniques which are extremely useful in planning. Some of the more common ones are Activity Networks, Decision Trees, Milestone Charts, Programme Evaluation and Review Technique (PERT), and Critical Path Method (CPM). Depending on the specifics of your plan you can use the appropriate technique to make them more useful.

In MBO, objectives are set for the organisation or the unit as well as for specific individuals. Therefore two kinds of plans are needed: plans for the team and individuals' plans. The reference point for team or group plan may be the sales team, or group of R & D engineers working on new product development or even the entire regional office striving as a team to achieve the objective of a specified sales figure. Wherever objectives are specified for a group of people working together towards a common goal, a team plan is required. Within the team individuals are assigned specific objectives for achieving and these individuals need individual or personal plans.

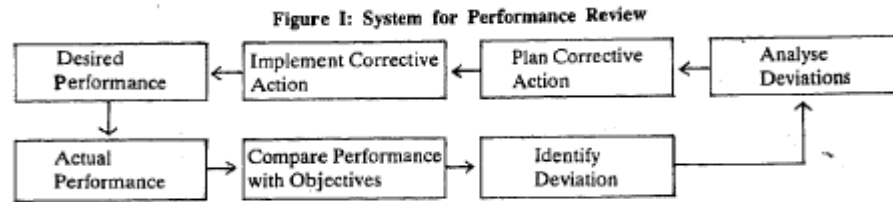
Performance Review

Regular performance review is one of the main features of MBO. In the absence of a review system the MBO system cannot function. In the MBO process, the focus of the performance review is on:

- performance
- improvement
- future corrective action
- frequency of reviews
- self-appraisal



It is on the basis of these five elements that the performance review system of MBO is distinguished from other kinds of appraisal system. In MBO the purpose of evaluating performance is to provide corrective feedback to the concerned person. In an appraisal system, the appraisal may be done for the purpose of assessing the individual's potential and his compensation, for career planning and identification of training and development needs and also includes appraisal of personality traits and not merely performance. Figure I present a system of performance review in an organisation where the MBO approach is followed.



8.6 ENSURING SUCCESSFUL IMPLEMENTATION OF MBO

The MBO process seems apparently simple but to practice it requires great analytical skill and clarity of purpose on the part of the management. MBO is not a managerial technique which can simply be introduced at a moment's notice. MBO involves people who have their own fixed ideas, attitudes, values and perception which can make the MBO implementation a very complex affair. The prerequisites of a successful MBO are:

- Evaluation
- Preparation
- Top management support
- Time horizon and
- Proper entry point

Evaluation

The first step is to evaluate what you expect from MBO. The most commonly made mistake is that MBO is visualised either very narrowly as a just another appraisal system or as merely another way of tackling the problem of writing job descriptions or it is visualised as a solution to all problems. This leads to unrealistic expectation from MBO. To avoid this, it is best, first of all, to evaluate the existing organisational performance, culture, management style, systems of planning, controlling and monitoring and then decide upon the specific needs which can be fulfilled by MBO. It must be remembered that MBO is a powerful tool which can be used for improving the entire organisational performance, provided there is clarity about the expected results.

Preparation

The next step is to prepare the people for accepting MBO. Human nature always resists change. The best way to overcome this resistance is to disseminate maximum information about MBO and educate the concerned key people about its expected benefits. If possible, all the managers should be given a formal training exposure to MBO. This stage of preparation is very critical as MBO can be successful only if people willingly accept and practice it.

Top Management Support

For MBO to be successfully implemented it is important that it has the full backing and support of the top management. In the process of implementation, there may be some redefining of objectives which in turn may lead to jobs being redefined, restructured or even totally scrapped in some cases. This is bound to lead to conflicts and friction and top management intervention may often be required to soothe the disturbed emotions and find practical solutions. Top management needs to exhibit great patience, understanding, and perseverance to see the MBO through its teething stage.



Time Horizon

MBO means change which implies upheaval and disturbances. Just as some people can accept and adapt to change quicker than others; similarly one organisation's adaptability to change is different from that of another. Depending on its personality and attitude towards change (whether it is resistant or highly flexible) each organisation has to decide upon the rate of change which it can withstand. How quickly is MBO to be introduced and implemented in the organisation? In phases or at one go? In certain departments or in all departments simultaneously? These are the issues best decided on evaluation of specific characteristics. There can be no hard and fast rule except that sufficient time should be allowed to give MBO a fair trial.

Entry Point

If MBO is being introduced in phases, then the best point for beginning its implementation is the top management level. But the top management must really be serious about it and not merely profess to practice without actually doing so. Starting at the top has the advantages of setting an example for the rest of the people and the relatively small number of people involved.

8.7 BENEFITS OF MBO

The benefits accruing from MBO can be discussed in terms of the specific benefits to the subordinate, the superior and the organisation:

i) Benefits to subordinates include greater role clarity, measurement of performance and increased job satisfaction. When specific objectives have been agreed upon, the subordinate knows exactly what he has to achieve and can plan his various activities towards this end. Role and goal clarity ensure that there is no wastage of scarce organisational resources, on the one hand and single minded dedication to achievement of objectives on the other."

MBO implies regular feedback and measurement of performance against objectives. This serves as a great motivating factor for people to put in their best effort to achieve the objectives. It also helps to weed out the non-performer and identify the real contributors. Clear, specific objectives and unbiased feedback about performance contribute to increased job satisfaction as compared to a situation where a person does not know what is expected of him and how, if at all, his performance will be judged. Job satisfaction emanates from the feelings of having done a job well to the best of your capability as well as public recognition and approval for it. The former is possible only when there are specific objectives while the latter can occur only if there is a system of review and reward. A worker or manager who derives satisfaction from his job will work harder in order to improve his performance while a dissatisfied, discontented manager will make a negative contribution. Thus MBO can serve to bring about a change and put people on the self-propelling cycle of role clarity, increased job satisfaction and increased productivity.

ii) Benefits to Superiors: The benefits accruing to the subordinate will, of course, also accrue to the superiors. But besides these, the other specific benefits for superiors are that MBO motivates subordinates, strengthens superior-subordinate relationship, and provides an objective appraisal method.

MBO is based on the concept of participation and this leads to greater motivation. Setting objectives implies that both the superior and the subordinate have to sit across the table and openly discuss their respective roles, work, obstacles and competencies. Such candid discussion always leads to increased mutual trust and confidence in each other and provides an enduring bond to the relationship.

One of the biggest advantages of MBO is that it provides an objective basis for reviewing performance on the basis of achievements rather than personality traits. Reviewing a person on the basis of his personality not only puts him on the defensive but serves no purpose from the organisation's point of view. The only thing that matters is results. People are retained by organisations to produce results and



not because they are sociable, soft spoken, introverted or possess any other such personality characteristic which has no bearing on their competence or capability.

Benefits to the organisation: MBO focuses on managerial effectiveness as a central value in the entire organisation. And this emphasis permeates down to the lowest level, influencing each manager and worker. This shows up in all the decisions which each manager makes and the overall performance of the organisation is improved. Secondly, MBO with its focus on objectives improves concentration and co-ordination of managerial effort. There is maximum utilisation of resources and conflicting pulls in opposite directions are avoided. Thirdly, the periodic review in MBO helps identify advancement potential of workers and managers. It also helps in identifying workers-who are under-utilised or not making the full contribution. Lastly, MBO creates many centres of accountability as against one centralised accountability point. It is not only the managing director or proprietor who is accountable for producing the desired results but each manager is responsible for achieving the agreed-upon objectives. Thus MBO leads to greater decentralisation in terms of setting and achieving objectives.

Some limitations:

In practical implementation you could sometimes encounter one or more of the following limitations of MBO.

Problems in joint objective setting among unequals. MBO implies a process of point or consultative objective setting between the superior and the subordinate. But this very relationship, based upon status, may prove to be a hindrance in free, frank and open communication between the two, and stall the process of setting goals in an objective manner;

Problems of MBO being effective at the lowest level. Theoretically, MBO is supposed to percolate throughout the organisation right down to the lowest level since the manager as well as the worker at each level have set their own agreed upon objectives. However, in reality, the workers or managers at the lower levels often do not have the full freedom to set their own objectives. This is because MBO operates from top to down, starting with the corporate objectives. Thus, the process of objective setting implies that the objectives at the lower level have already been locked in and managers down the line have to match their own objectives with those of the level above them only. If the process of objective setting is reversed to overcome this limitation, and objectives are first set at the lowest level, it would mean that the entire organisation is being guided by people who have less experience, less education, less knowledge and awareness; and it is

Difficult to implement in a situation of change. MBO assumes a stable environment in which the objectives once set will hold good till they are achieved. In reality, however, many unforeseen changes may occur which may render the objective impossible to achieve, or irrelevant, or invalid. In a situation where sudden changes occur frequently MBO is difficult to implement.

8.8 MBO IN INDIA

MBO was introduced in India in the early seventies. It has followed the British model, rather than the American one. and consequently there is greater emphasis on corporate planning and control. By now more than fifty companies of different sizes and backgrounds, and belonging to different industries have experimented with BO Not all have been successful, but the number of successes is larger than those of failures. M BO has been adopted in private as well as public sector companies and also in state government organisations.

The Indian company with the longest history of practising MBO is Madura Coats. Since 1971, MBO has become an established way of management in this company. Managers meet almost every other day for objective setting and reviewing. The managing director and MBO consultants meet every month to review the various aspects of MBO. The success at Madura Coats proves the fact that top management commitment is the most critical factor for success.



8.9 SUMMARY

Management by objectives helps improve managerial performance and effectiveness. It provides a workable framework to the manager within which he can make decisions which are in the best interest of the organisation. The key concepts of MBO are emphasis on results, participative objective setting for each managerial position, and emphasis on team work, human relations and a regular review system. The process of MBO involves setting objectives, action planning and reviewing performance. For successful implementation, proper planning and preparation are required. To achieve success with MBO it is necessary to have the top management's full support and commitment, a realistic time frame for implementation, adequate training of people who would be involved in the process, and a proper understanding of the role of MBO.

8.10 KEY WORDS

Action Planning: Drawing up of detailed plans which spell out the various sequential activities to be performed in order to achieve the specified objectives.

Corporate Planning: Planning undertaken by the top management to define objectives for the entire organisation as well as the means of achieving these objectives.

Effectiveness: The extent to which the output requirements are actually achieved. Emphasis on doing the right things.

Efficiency: Ratio of output to input, doing things in the right manner.

Joint Objective Setting: A process by which a boss and his immediate subordinate arrive at mutually agreeable objectives for the latter.

Key Result Areas: Those results or outputs whose achievement is critical to the survival of the specific managerial position. These can also be defined at the level of a division, a unit and the entire organisation.

Objectives: Expected results.

Performance Review: A system for evaluating the results achieved as against the specified objectives in order to initiate corrective action and improve future performance.

8.11 FURTHER READINGS

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