

# MANAGEMENT BY OBJECTIVES

## Abstract

MBO is an acronym for Management by Objectives. It refers to a management system that measures employees' performance against a series of set targets or goals to gauge their overall performance in their role. MBO is essentially a philosophy of management based on identifying purpose, objectives, strategy, desired result and evaluating performance in achieving them. It has 8 steps; Setting of objectives at the top, Identifying key result areas (KRAs), Clarifying organizational roles, Setting subordinates objectives, Holding periodical meetings, Assess strengths and weaknesses of key resources, Evaluation of results or performance appraisal and Recycling or re-evaluating the process.

**Keywords:** management, objective

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## I. INTRODUCTION

Management by Objectives is a Boon for healthcare Administration. The concept of management by objectives (MBO) was introduced by **Peter Drucker** in 1954. However many elements used in MBO were actually developed earlier, George Odiorne, Dale D, McConkey, and others are credited with giving MBO a substantial boost in mid-1960s. Though these concepts have usually been designed with business and industries in mind, but it also has important implications in nursing.

## II. FEATURES OF MBO

- Objectives at all levels
- Emphasis on all significant priority areas
- Participation of concerned managers in objective setting and performance reviews
- Periodic reviews of performance
- Appropriate systems and procedures
- Role clarity
- Multiple accountability

## III. PURPOSES OF MBO

- MBO ensures that the goals of individual employees and teams are aligned with the overall objectives and strategic direction of the organization. This alignment ensures that everyone is working towards the same overarching goals, fostering a sense of unity and purpose.
- By setting clear and specific objectives, MBO helps employees understand what is expected of them and what they need to accomplish. This clarity of purpose helps in increasing focus and productivity, as employees know their targets and can prioritize their efforts accordingly.
- When employees are involved in the goal-setting process, they tend to be more motivated and engaged. MBO allows employees to have a say in setting their own objectives, which leads to a sense of ownership and responsibility for achieving them.
- MBO provides a basis for evaluating employee performance. As objectives are measurable and time-bound, it becomes easier to assess how well employees are progressing towards achieving their goals. This information can be used in performance appraisals and feedback sessions.
- MBO encourages open communication between managers and employees. Regular check-ins and progress reviews provide opportunities for feedback, clarification, and coordination among team members.
- In a rapidly changing business environment, MBO allows organizations to adapt quickly to new challenges and opportunities. By periodically reviewing and updating objectives, organizations can stay flexible and responsive to changing circumstances.
- MBO can be linked to individual development plans and career growth. Employees can use the process to identify areas for improvement and acquire new skills to achieve their objectives.
- MBO fosters a culture of alignment and collaboration across different departments and levels within the organization. It helps in breaking down silos and promoting cooperation towards common goals.

#### **IV. PRINCIPLES OF MBO**

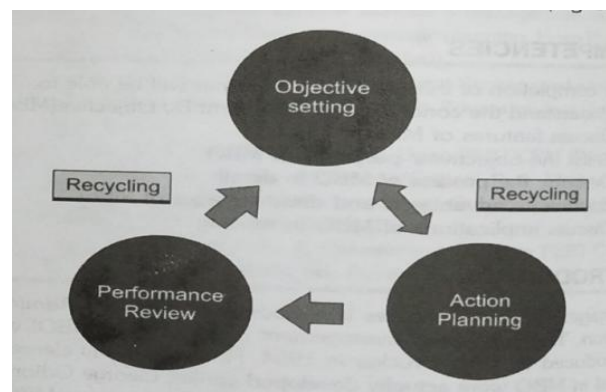
- Objectives should be specific, clear, and well-defined. They should outline what needs to be achieved, by whom, and within what timeframe. Specificity helps in avoiding ambiguity and ensures that everyone understands their roles and responsibilities.
- MBO encourages participative goal setting, involving employees at all levels in the process. When employees are involved in setting their own objectives, they are more likely to be committed to achieving them and feel a sense of ownership over their work.
- Objectives are cascaded down through the organizational hierarchy. The top-level organizational goals are broken down into departmental or individual goals. This ensures alignment and coordination throughout the organization, as each level's objectives contribute to the achievement of higher-level goals.
- Objectives should be formulated using the SMART criteria - Specific, Measurable, Achievable, Relevant, and Time-bound. SMART objectives provide a framework for creating meaningful and actionable goals that are both realistic and measurable.
- MBO requires regular review and feedback on progress towards objectives. Managers should provide continuous guidance and support to employees, helping them stay on track and make necessary adjustments if needed.
- MBO emphasizes the measurement of performance against objectives. Assessments are based on the extent to which objectives are achieved, providing a clear basis for evaluating employee performance and identifying areas for improvement.
- Achieving objectives should be linked to rewards and recognition. Recognizing and rewarding employees for meeting or exceeding their goals can enhance motivation and reinforce a culture of achievement.
- MBO acknowledges that objectives may need to be revised or updated due to changes in circumstances or priorities. The process allows for flexibility and adaptability, enabling the organization to respond to dynamic environments effectively.
- MBO is integrated with the organization's overall planning process. Objectives are derived from the organization's strategic goals and are designed to contribute to the realization of those broader objectives.
- MBO not only focuses on achieving short-term objectives but also supports employees' personal and professional development. It encourages continuous learning and improvement to enhance individual and organizational performance.

#### **V. PROCESS OF MBO**

MBO is essentially a philosophy of management based on identifying purpose, objectives, strategy, desired result and evaluating performance in achieving them. It has 8 steps:

- Setting of objectives at the top
- Identifying key result areas (KRAs)
- Clarifying organizational roles
- Setting subordinates objectives
- Holding periodical meetings
- Assess strengths and weaknesses of key resources
- Evaluation of results or performance appraisal
- Recycling or re-evaluating the process

- 1. Setting of Objectives at the Top:** First step in setting objectives is for the top manager is to determine the purpose or mission of the organization under given appropriate planning premises. These are based on the analysis and judgement. Then long range and strategic objectives, short term organizational objectives, departmental, unit objectives and individual manager's objectives are developed.
- 2. Identifying Key Result Areas (KRAs):** It indicates the priorities for organizational performance. It also indicates the present state of an organizational health and the top management perspectives for the future.
- 3. Clarifying Organizational Roles:** Each goal and sub goal should be of one person's clear responsibility. Hence the specific parts of each co-ordinating manager's contribution to the program goal should be identified.
- 4. Setting subordinates Objectives:** After setting all levels objectives, identifying KRAs, the superior can then proceed to work with subordinates in setting their objectives. The action plan is made with them. The subordinates' contribution or participation is very important at every stage.
- 5. Holding Periodical Meetings:** Periodical meetings are conducted by the superior to discuss the progress of work and implementation of the plans with their subordinates.
- 6. Assess Strengths and Weaknesses of Key Resources:** The strengths and weakness of key resources like human, financial, physical are assessed. The allocation and movement of resources are done in consultation with subordinate managers.
- 7. Evaluation of Results or Performance Appraisal:** This aspect of MBO tries to measure whether the subordinate is achieving the objectives or not, what are the problems and how these problems can be overcome. This is a continuous process and view to find out the deficiencies in the work and also to remove those deficiencies.
- 8. Recycling or Re-Evaluating the Process:** The result of performance appraisal is used as an input for recycling objectives and other actions. Since the objective setting is a joint process through interaction between superior and subordinates, each level may affect other levels also.



**Figure 1:** Recycling Aspect of MBO

## **VI. ADVANTAGES OF MBO**

- MBO provides clear and specific objectives to employees, ensuring that everyone understands what is expected of them and how their individual goals contribute to the organization's overall objectives. This alignment fosters a sense of unity and purpose among employees.
- Involving employees in the goal-setting process increases their engagement and commitment to achieving the objectives. When employees have a say in defining their goals, they are more motivated to work towards their achievement.
- With clear objectives and performance standards, employees know what they need to accomplish, leading to improved focus and productivity. MBO helps prioritize tasks and ensures that efforts are channelled towards critical activities.
- The process of MBO encourages regular communication between managers and employees. Feedback and progress reviews create opportunities for discussion, clarification, and coordination among team members, improving collaboration within the organization.
- MBO provides a basis for objective performance evaluation. Since the objectives are measurable and time-bound, it becomes easier to assess an employee's progress and accomplishments. This data-driven approach reduces bias in performance assessments.
- MBO empowers employees by giving them autonomy in setting their objectives and determining the action plans to achieve them. This sense of empowerment increases employee satisfaction and motivation.
- MBO allows organizations to adapt quickly to changing circumstances. If objectives become outdated due to shifts in the business environment, they can be revised or replaced with new objectives that align with the organization's current priorities.
- MBO encourages employees to identify areas for personal development and skill improvement to achieve their objectives. This fosters a culture of continuous learning and self-improvement within the organization.
- MBO ensures that everyone in the organization is working towards the same goals, reducing distractions and aligning efforts with strategic priorities. This collective focus contributes to overall organizational success.
- Clearly defined objectives provide a basis for decision-making processes. Managers can evaluate various options based on how they align with the established objectives, making decision-making more structured and consistent.
- MBO facilitates a link between performance and rewards. Employees who meet or exceed their objectives can be appropriately recognized and rewarded, reinforcing a performance-driven culture.

## **VII. LIMITATION OR DISADVANTAGES OF MBO**

- MBO often focuses on achieving specific, measurable objectives within a certain timeframe. This can lead to a short-term mindset where employees prioritize meeting immediate goals over long-term strategic planning and development.
- The emphasis on quantifiable results may lead employees to neglect important aspects that are difficult to measure, such as employee morale, teamwork, and innovation. This can create an environment where employees prioritize easily measurable goals to the detriment of broader organizational health.

- Setting rigid objectives can be problematic in dynamic and unpredictable environments. Business conditions may change rapidly, and sticking strictly to predefined goals may prevent necessary adaptations and responsiveness to new challenges and opportunities.
- MBO may encourage employees or departments to pursue their individual objectives, which can lead to conflicting goals within the organization. This can result in competition among teams or a lack of cooperation, hindering overall organizational effectiveness.
- The pressure to meet specific objectives can create stress for employees, particularly when goals are set unrealistically high or when they have limited control over the factors influencing goal achievement. This can negatively impact employee well-being and job satisfaction.
- To meet their objectives, employees may resort to unethical practices or manipulate their performance data, resulting in goal distortion. This behavior can undermine the integrity of the performance management system and the trust within the organization.
- Implementing MBO requires substantial planning, monitoring, and evaluation efforts. It may involve a significant amount of paperwork, reporting, and meetings, diverting valuable time and resources away from other critical tasks.
- MBO tends to focus on quantifiable results, often overlooking the importance of soft skills such as communication, empathy, and creativity. These skills are essential for building strong team dynamics and fostering a positive work culture.
- MBO's success relies heavily on effective goal setting. If goals are not well-defined, attainable, and aligned with the overall organizational strategy, the entire performance management process can be compromised.

### **VIII. ESSENTIAL CONDITIONS FOR SUCCESSFUL EXECUTION OF MBO**

- Objectives should be specific, achievable, and measurable. They should be well-defined, leaving no room for ambiguity, and employees should understand what is expected of them. Clear objectives serve as a roadmap for employees, guiding their efforts towards achieving organizational goals.
- MBO needs strong support from top management to be successful. Leaders should actively participate in the goal-setting process, communicate the importance of MBO to the entire organization, and provide necessary resources to support goal attainment.
- Employees should be involved in setting their individual goals and be given the opportunity to provide input into the process. When employees have a say in goal-setting, they are more likely to be committed to achieving those objectives.
- MBO should be closely aligned with the overall strategic objectives of the organization. When individual and departmental goals are in line with the broader organizational goals, it ensures that everyone is working towards the same vision.
- Regular monitoring of progress is crucial in MBO. Managers should provide timely feedback to employees regarding their performance, acknowledging achievements, and offering guidance for improvement when necessary. This feedback loop helps employees stay on track and make adjustments as needed.
- While setting clear objectives is essential, MBO should also allow for flexibility and adaptability. Business environments are dynamic, and goals may need adjustments to reflect changing conditions and priorities.
- Employees and managers involved in the MBO process should receive adequate training on goal-setting, performance measurement, and feedback techniques. Training ensures that the process is understood and implemented effectively throughout the organization.

- Recognizing and rewarding employees for achieving their objectives can be a powerful motivator. Incentives tied to successful goal attainment can reinforce a culture of performance and encourage continued commitment to the MBO process.
- Encouraging open communication and collaboration among employees and teams fosters a supportive work environment. This allows for the sharing of ideas, knowledge, and resources, promoting a sense of unity and collective effort towards achieving organizational goals.
- MBO should be implemented ethically, ensuring that goals are not set unrealistically high, which may lead to unethical behavior or goal distortion. The process should prioritize integrity and fairness.

## **IX. IMPLICATIONS OF MBO IN NURSING**

MBO is not only essential and useful for business managers, but is equally important to nursing administrators to improve the efficiency of nursing personnel. MBO based on Taylorist principles can be used in nursing managerial process.

MBO can lead to improved patient care by setting specific and measurable objectives related to patient safety, quality of care, and patient satisfaction. By focusing on these goals, nurses can work more effectively to enhance patient outcomes and overall healthcare experiences. MBO creates a culture of accountability among nurses. When nurses are involved in setting their own objectives and goals, they are more likely to take ownership of their performance and strive to meet or exceed those targets. MBO encourages open communication and collaboration among nursing teams. Nurses work together to set departmental and organizational objectives, fostering teamwork and sharing best practices to achieve common goals. Goal-setting in MBO often includes objectives related to professional development and skill enhancement. Nurses are encouraged to pursue ongoing education and training to meet their career aspirations while staying up-to-date with the latest medical advancements. MBO provides a structured framework for evaluating nursing performance. Performance assessments are based on specific, measurable outcomes, making the evaluation process more objective and transparent. By aligning nursing objectives with the overall strategic goals of the healthcare organization, MBO ensures that nursing efforts contribute directly to the organization's mission and vision. MBO helps identify areas that require additional resources or support to achieve set objectives. This aids in the efficient allocation of resources, such as staffing, equipment, and training, to meet nursing department needs. MBO can emphasize patient-centered care by setting goals that prioritize patient needs and preferences. Nurses can be encouraged to incorporate patient feedback and preferences into their care plans. When nurses are actively involved in goal-setting, it can lead to higher levels of job satisfaction and reduced burnout. Having a clear sense of purpose and progress towards achieving objectives can positively impact nurse motivation and well-being. MBO relies on measurable data to track progress and assess performance. Nurses can use data to make informed decisions about their practice and identify areas for improvement.

## **X. CONCLUSION**

Management by Objectives is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. It is the process of defining specific objectives within an

organization that management can convey to organization members, then deciding how to achieve each objective in sequence. This process allows managers to take work that needs to be done one step at a time to allow for a calm, yet productive work environment. This process also helps organization members to see their accomplishments as they achieve each objective, which reinforces a positive work environment and a sense of achievement.

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