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## Critical Analysis of Management by Objective in Indian Companies

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### **Abstract:**

Organizations are focused, goal-oriented groups of persons. Therefore, goals or objectives should provide the focus for each activity. Each job in the organization must be directed towards the objectives of the organizations as a whole and the contribution of every individual must be judged by the contribution made towards the accomplishment of these objectives. The goals of every manager should be defined by the contribution he has to make to success of the organization. This can be done through management by objectives. This concept was introduced by Peter F. Drucker in 1954 in his popular book 'The practice of Management'. Originally, conceived as a technique of participation and joint goal setting, it has become a distinct philosophy and an approach to management because it applies to every organization and to every manager.

In this research paper, an attempt is made to analyze Management by Objectives (MBO) in selected Indian companies. Out of the 10 notable companies implementing MBO, two companies are randomly selected for the analysis. The paper begins with the introduction which is then followed by a comprehensive elucidation of MBO. In which, first of all the meaning and definitions of MBO are described. Later, the MBO process is discussed and advantages of MBO are outlined. Indian scenario of management by objectives is also discussed here. This is followed by the analysis of MBO in selected Indian companies. Then the limitations of MBO are investigated. Finally, the conclusion is drawn from the detailed study and analysis.

**Keywords:** Management by objective, MBO, executive development, organizational development, performance, appraisal, management by result, self control, key result areas, authority, responsibility, commitment

### **1. Introduction**

*"Management by objectives works if you know the objectives. 90% of the time you don't" -Peter Drucker*

Human Resource Management in every organization is the toughest job of a manager as humans are contradicts with their attitudes, aspirations, assumptions and psychology. An organization faces most challenges and frustrations which are directly related to the people. HR managers must have specific competence to make their staff suitable for the changes in business environment that are likely to take place. The most significant tool the manager has in setting and achieving forward-looking goals is people. An organization's goals can be achieved only when people put in their best efforts. How to ascertain whether an employee has shown his or her best performance on a given job? The answer is performance appraisal. Employee assessment is one of the fundamental jobs of HRM, but not an easy one though.

The term 'performance appraisal' cannot be generalised. Instead, it alludes to the relative thinking of the person concerned on the basis of the parameters he has chosen. This is because classification of what is good, better or best can only be a decision of individual concern. The appraisal of performance starts at a very early stage of human development. The child assesses the performance of his mother exclusively on the criteria of expectations. As one ages, the number of performers surrounding him keeps on increasing over and above the relationships of mother, father, brother, sister, son and daughter. The individual has to consider his friends circle and different vocations together with those of doctor, teacher, student, shopkeeper, politician, police and so on. One assesses the performance of these people stringently on the basis of their expected and desired behaviour and output. The performance of a person cannot be determined by a single benchmark because whether the performance is good or bad has to be decided by the user or the beneficiary. Therefore, the appraisal is based on the assessment made by the individual who can be named as a judge in association with the particular appraisal of performance to be undertaken.

In simple terms, performance appraisal is the evaluation of an individual's performance in a systematic way. A formal definition of performance appraisal is:

It is the systematic evaluation of a person with respect to his or her performance on the job and his or her potential for development.

With the evaluation and development of appraisal system, a number of methods or techniques of performance appraisal have been developed. The important methods are classified into two categories: Traditional Methods and modern methods. Management by Objectives (MBO) is one of the modern methods of performance appraisal.

## 2. What is MBO?

MBO is not only a philosophy but an approach to management also. The concept of MBO was first placed Peter Drucker. This is developed by his student George Odiume. Peter Drucker in his book “The Practice of Management” published in 1954 outlined a number of major concerns for the future manager. An essential part of MBO is measurement and comparison of actual versus standard performance. In an ideal world, when employees are allowed for participatory goal setting and choosing the course of action to be followed by them, they get inspired to fulfil their responsibilities.

### 2.1. Definition of MBO

Wikipedia defines, Management by objectives (MBO), also known as management by results (MBR), is a process of defining objectives within an organization so that management and employees agree to the objectives and understand what they need to do in the organization in order to achieve them.

According to George Odiume, MBO is “a process whereby superior and subordinate managers of an organization jointly define its common goals, define each individual’s major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members.”

Management by objective is a process in which the manager and subordinates of every unit of the organization together agree upon a set of targets which are used as the criteria for judging the performance of the subordinates.

It is also known as management by participation, goal management, etc.

*The objectives of every department or division should be derived from evaluation will help to identify the specific needs which can be met by MBO. MBO is a powerful technique but it can be successful only when the expected results are clearly understood.*

With the advantage of hindsight, it may seem apparent that managers must have somewhere to go before they set out on a journey. But Drucker pointed out that managers often lose sight of their objectives because of something he called “the activity traps”. They get so occupied in their current activities that they forget their novel purpose. In some cases it may be that they become immersed in this activity as a means of avoiding the uncomfortable truth about their organization’s condition.

Formal MBO programmes are typically designed to serve as a means of:

- Goal setting—ascertaining and prioritizing missions, key result areas and goals
- Programme planning—designing means for implementing action
- Participation—involving members of the organization as individuals and as work teams in the planning process.
- Development—getting better managerial proficiency in decision-making, planning and controlling.
- Motivation—tapping latent capability through involvement in setting challenging realistic objectives.
- Control—measuring and evaluating result
- Performance appraisal—providing feedback to individuals and work-teams about actual and expected results.
- Compensation—designing reward systems that centre on results rather than activities.

### 2.2. MBO Process

The precise meaning of MBO and its application varies from organization to organization. In some organizations, MBO is nothing more than a catchy slogan from the most modern management jargon. While for others, MBO represents an overall philosophy of management. In order to be aware of the reasons for this diversity, it is essential to look into process of MBO.

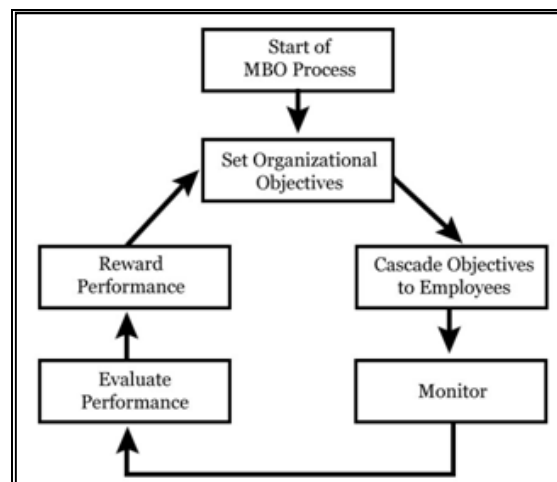


Figure 1: The Five step MBO Process

(Source: Drucker, Peter F., "The Practice of Management", 1954)

- **Step1: Start of MBO Process:**  
An MBO process must start with the wholehearted support of top management. It must be reliable with the philosophy of management. Every level of management in the organization must take part in the strategic planning process and conception of performance systems. The managers of the firm are expected to contribute in the strategic planning process to ensure the efficacy in the implementing of the plan.
- **Step2: Set Organizational Objectives:**  
First of all corporate objectives are laid down which define the mission and principle of the company. An MBO system calls for each level of managers to discover their goals for every area they are accountable for. The long term goals of the organization are outlined in the beginning. After these long term goals are established, management must be concerned with determining precise objectives to be achieved within a given time capsule.  
Although, every managerial position gives some results, results in selected areas are crucial to the success of the organization. These areas are known as the Key Result Areas (KRAs). By identifying the key result areas a manager and an organization can spotlight their scarce resources on the most considerable activities.
- **Step3: Cascade Objectives to employees:**  
Here, objective setting is a participatory exercise. The objectives for each managerial position are laid down by the manager concerned in consultation with his superior. These goals are shared then with their individual units. Shared targets direct individuals in fulfilling their role.
- **Step4: Monitor:**  
The role of the management now is to examine the performance of employees as per the standards set. The attention is on future rather than on past. They check progress regularly and over a set period of time. There is external and internal control in this system with routine evaluations.
- **Step5: Evaluate Performance:**  
Actual results are measured against preset standards. The significant facet of the MBO approach is the agreement between employees and managers concerning performance which is open to evaluation. The standard is that when employees are involved with the goal setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities. There is a linkage between organizational goals and performance targets of the employees.
- **Step6: Reward Performance:**  
The emphasis of performance appraisal is on future corrective action and improvement. In this step, best performance is rewarded and counselling or/and training is provided by the superior to get better the capabilities and performance of the employees, if there are deviations in the performance.  
As shown in the figure1 above, roles and missions provide an overall framework for understanding the products and services which the organization is to make available. Key result areas provide as the major determinants of organizational victory. Communication and understanding are significant factors in the overall process of management by objectives.

### 2.3. Advantages of MBO

- Participative planning process make emphasis on results rather than activities and precise goal setting enhances planning process.
- Synchronization of individual and organizational objectives promotes integrated outlook of management and helps enhance the co-ordination between different departments.
- Involving subordinates in goal setting and performance appraisal have a tendency to get better their commitment to performance. Better communication and sense of involvement provides psychological satisfaction and motivates employees for hard work.
- MBO replaces trait based appraisal by performance based appraisal. Quantitative targets for every individual enable him/her to evaluate his own performance. One of the major contributions of MBO is that it enables employees to substitute management by self-control, for management by domination.
- MBO makes possible a high degree of self-control by individual managers and increases decentralization of authority. It encourages initiative and growth by stretching capabilities of executives.
- MBO enables managers to initiate and manage change. MBO improves the capacity of the organization to cope with its changing environment.

### 3. Management by Objectives in India

In India, very few organizations have applied MBO and a small number of them have shared their experiences with others. MBO came to India at first through the multinational companies operating in India. In the beginning, the overseas headquarters of previous subsidiaries provided skill. In 1969, the Administrative Staff College of India organised a seminar on MBO in which chief executives of many large companies participated. By now more than fifty companies of different sizes and belonging to diverse industries have experimented with MBO, many of which have succeeded. MBO has been adopted in private sector, public sector and government organization. Majority of the Contemporary Management organizations have followed the British model under which there is larger weight on corporate planning and control.

MBO received a boost in India when it was acknowledged to be an integral part of “The HP Way”, the highly praised management style of Hewlett-Packard. Managers had to develop goals and assimilate them with the other managers and the

company as whole. This has done at every level of management within HP. In order to accomplish this written strategies were produced and illustrating the employees to what they needed to achieve these goals. Later, the strategies were disseminated with others in the organization and co-ordinated.

*MBO has also been put into practice in many other organizations in India. Glaxo India Ltd., Bharat Bijlee, Blue Star, Grindlays Bank, Shaw Wallace, Hindustan Copper Ltd (HCL), Bharat Heavy Electricals Ltd (BHEL), Tamil Nadu Dairy Development Corporation, Department of Stationery and Printing, etc. are notable among these. The experience of these organizations reveals that the main reasons for failure of MBO are as lack of top management assurance and support, poor understanding of the true role of MBO and Over-emphasis on evaluation*

#### 4. Analysis of Management by Objective

From the list of companies implementing MBO in India, two companies are randomly selected for the analysis of MBO implementation. Indian companies following MBO are as follows:

- Glaxo India Ltd.
- Bharat Bijlee
- Blue Star
- Grindlays Bank
- Shaw Wallace
- Hindustan Copper Ltd (HCL)
- Bharat Heavy Electricals Ltd (BHEL),
- Tamil Nadu Dairy Development Corporation,
- Madura Coats
- Department of Stationery and Printing

From the above list names of the companies selected for analysis are as follows:

- Glaxo India Ltd
- Madura Coats

Let us first discuss MBO in Glaxo India Ltd

##### 4.1 Glaxo India Limited

Glaxo India Limited (now GlaxoSmithKline Pharmaceuticals Limited) was one of the leading healthcare and pharmaceutical company in India. The company experienced problems because of government's policy towards multi-nationals, inflationary pressures and internal organizational issues. In 1973, a new managing director was appointed who took the decision to implement Management by Objective (MBO). MBO was introduced with the classification of corporate objectives and Key Result Areas (KRAs). The company followed a group approach to objective setting at the corporate, divisional and departmental levels. Initially, there were 48 work groups which were reduced to 37.

The objective setting process consisted of the following steps:

- The corporate group issued guidelines to the divisions for expected results.
- The divisions indicate their capabilities and also the requirement for additional resources.
- Corporate objectives were established
- Divisional objectives were finalized
- Company's budget was compiled
- Departmental objectives were established

The corporate and divisional objectives in Glaxo were established for three years. Renewal took place every year. The emphasis in MBO at Glaxo was on strengthening the planning and control systems at different levels and on team building and participative goal setting.

The company changed its structure from functional to divisional. This was done before the implementation of MBO. It was recognized that the existing structure of Glaxo on functional basis had several problems related to co-ordination, conflict management and accountability. Therefore, with effect from January 1974, Glaxo was reorganized into three profit centres/ operating divisions-pharmaceuticals, foods and chemicals, besides a number of corporate departments. The new structure made a positive impact on the morale and performance of the human resources in Glaxo by providing clarity in roles and objectives. This also facilitated the implementation of MBO. The initial process of MBO implementation was slow and encountered several problems. Initially, the senior managers were reluctant and unhappy of the new management style. However, because of the managing director's personal commitment and contributions MBO was successfully implemented in Glaxo India Limited and indicated improvements in the following areas:

- The quality of contribution of the corporate and divisional directors and their senior managers to the business discussion from which corporate and divisional plans are evolved.
- The logic, balance and quality of expression in these plans.
- The actual setting of objectives with attainable stretch.

The business of the Glaxo India Limited also improved after the implementation of MBO. This was attributed to MBO and reorganization of structure. This in turn also reinforced the positive attitude of the human resources of Glaxo India Limited towards MBO.

#### 4.2. Madura Coats

Among the Indian companies Madura coats has the longest experience with MBO. It applied MBO in 1971 and since then MBO has become an established way of management in this company. To begin with, a comprehensive training programme was organised. An outside consultant was engaged and two MBO advisors were appointed from the management team of the company. The company identified eleven Key Result Areas: profitability, cost reduction, financial resources, expansion, modernisation, product development, planning, labour relations, management development, organization development, public image and external relations.

In 1972 modernisation was dropped and two new KRAs namely, quality and marketing strategy were added. Initially, there were certain problems, e.g., vagueness in objectives due to unfamiliarity with the new system. To overcome these problems job descriptions were made clearer and the organization was restructured. The new structure consisted of three profit centres - Industrial textiles, cloth and threads. The revised structure also led to change in the sequence of a goal setting. In July 1970, a framework for analysing the contributions was prepared. It was observed that the MBO system had contributed satisfactorily in the areas of planning, control and decentralisation. But lateral communication, team work, manager's commitment to goals, action planning and performance review were weak. As a result, action planning was made more rigorous and MBO advisers undertook counselling of selected executives. Now the company has introduced MBO throughout the organization. Managers meet alternative days for objective setting and reviewing. The Managing Director and MBO consultants meet every month to review the various aspects of MBO. Effective systems for planning and control have been developed. Decision-making is decentralised and rigorous analysis is used for this purpose. To emphasise self control performance reviews are held in the rooms of the subordinate managers.

#### 5. Limitations of MBO

MBO is considered to be a system that claims for dialogue and growth between superior and subordinate with a vision of achieving results over and over, again sink into a system in which the superior put constant pressure on the subordinate to produce results and forgets about using MBO for commitment, desire to contribute and management development. Sometimes even well intentioned managers misinterpret MBO because they do not have the interpersonal skills or acquaintance of human needs to keep their appraisal sessions from becoming crucial, chewing-out periods. Many managers have an inclination to perceive MBO as a total system that, once installed, can solve all management problems.

The limitations of MBO are discussed below:

- The organizational activities are so interconnected that no single person can be held responsible or rewarded for any end result.
- As each individual goal is distinct from those of others in terms of complexity, comparative rating becomes complicated.
- As MBO only deals with performance on the present job, it is difficult to assess and discover potential.
- The entire MBO process is time consuming.
- MBO presumes a definite level of trust all the way through the hierarchy. But the organizational life teaches individuals to be vigilant. This inhibits candid dialogue and appropriate goal setting.
- MBO is more suitable for managerial, professional and sales people and those who work independently and less applicable to routine worker-level jobs, such as an assembly line. In these kinds of situations more traditional performance appraisal tends to be applicable.

#### 6. Conclusion

Management by objectives has become de facto practice for management in some of the organizations. The employees are given sufficient responsibility and authority to accomplish their individual objectives. Accomplishment of individual objectives eventually contributes to achieving organizational goals. The review process makes sure that the objectives are at par with the organizational goals. MBO urged participative planning process and hence have the commitment at all levels in the organization. As the plan is implemented, the organization examines a range of performance measures, designed to help it stay on the right path towards its objectives. Modifications in the plan must be done when it is no longer leading to desired objective.

From the analysis in this research paper, it is clear that if implemented correctly, MBO ensures better and more effective management of the vital resource of the organization which is human resource without compromising the organizational strategy. Instead of simply planning for activities, management now thinks of planning for results. Because of MBO, the manager gets an idea of how the objectives can be achieved and what resources would be required and provides the standards of control. The organizational deficiencies like overlapping of authority, unsuccessful delegation and communication are disclosed because of MBO. This enables the management to remove these deficiencies. An organization following management by objective approach comprise of improved planning, improved coordination and motivation, accurate appraisals, executive development, organizational change and development. The organization managed by objectives not only becomes performance-oriented but socially useful also.

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