

Management by Objectives Theory

--- Still Effective for Current Business Management?

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Abstract: Management by objectives (MBO) is a methodology for strategic management which works to improve an organization's effectiveness by clearly defining goals that both administration and employees agree on. It focuses on transforming the organization's strategic objectives into individual objectives. In MBO management mode, top-level executives set their goals according to corporate strategic objectives, and people at the next level set their goals in terms of the goals of top management and so down the chain of command. The core is that the managers work through the issue of determining, consulting, and mutual agreement on objectives with their personnel while also evaluating their achievement. However, some argue that MBO is no longer suitable for current business management. This essay will evaluate MBO and argue that MBO may be a helpful theory for management, but it is no longer applicable to current business management. This essay will first explore the arguments in favor of the MBO theory before arguing that MBO's structure is no longer suitable or efficient for modern administration and management, and its assessment and bonus system, which is considered to motivate employees, is hard to play.

Keywords: MBO, Management, Objectives, Effective, Assessment

1. Introduction

MBO, which Drucker proposed in the management document [1], lacks a comprehensive theoretical foundation[1]. MBO focuses on a particular kind of relationship between a manager and his employee. The idea behind MBO is that different corporate hierarchies must be integrated. Commitment, accountability, and maturity were required. There was a requirement for a typical challenge. Here, MBO takes on the form of a procedure whereby the management and the employees agree on and decide upon the organization's goals, allowing the employees to know what is expected of them and contribute to the creation of their own personal goals. As a result, they meet both the aims of the organization and their own personal objectives[2]. By establishing goals for the organization as a whole, it is a method that can inspire managers and combine their efforts. These objectives are then carried down through each management level, to make sure that attaining goals at each level will help to reach the objectives of the subsequent level and, ultimately, the corporate goals[3]. According to Swiss (1991), the negotiation of a performance contract with the following elements between a higher level management and a subordinate manager forms the nucleus of a full-fledged MBO process[4].

(1)major goals ought to consist of completion dates,(2)resource commitments to support these goals,(3) action plans and milestones for completing these goals, (4) periodic meetings between the manager and the subordinate to review progress and make midcourse adjustments as needed, and (5) an assessment of performance of the subordinate at the conclusion of the MBO cycle that should inform both the personal appraisal procedure and MBO planning for the cycle that follows.

Some people think that MBO theory is very applicable to management. In fact, MBO is widely used by many organizations in many areas and has brought benefits to them. For example, as Poister and Streib(1995) stated, this method has been employed by the government for more than 20 years, and a significant amount of literature has grown to support its effectiveness[5]. Another example is the National Aeronautics and Space Administration, which turned to MBO instead of its subjective performance appraisal system in 1980 in an effort to link compensation to performance and to show that rating differences had a purpose and were fair and objective [6]. What's more, Management by objectives (MBO) is being used by Kasturba Hospital in Manipal, a tertiary care teaching hospital, as a motivational, appraisal and efficient management technique. The MBO idea was first introduced by the management in October 2003, keeping up the hospital's status as one of the best medical college teaching hospitals[7].

However, some people think that MBO is no longer suitable for current management. For instance, as Weldon argued that, the approach to management that is most frequently acknowledged is management by objectives. Some businesses have years--even decades--of experience using this method. However, ongoing challenges continue to exist[8]. Despite the fact that management by objectives (MBO) is now a key component of the managerial process, the traditional MBO attempts only serve to reinforce antagonism, resentment, and conflict between a manager and their subordinates. It is actually just industrial engineering as it is currently implemented, except with a new name, applied to higher managerial levels, and with the same opposition[9].

Unfortunately, MBO, which is a part of the majority of conventional evaluation methods, encourages this kind of rivalry among employees, restricts their inventiveness, and slows down their ability to respond quickly to an increasingly dynamic corporate environment[10].

Corporate philosophy has included management by objectives for many years.However, since its proclaimed advantages quickly turn into disadvantages in the new global century, more empowered and adaptable strategies emerge as promising new models for performance management[10]. This essay will first explore the arguments in favor of the MBO theory, before arguing that MBO's structure is no longer suitable or efficient for modern administration and management, and its assessment and bonus system, which is considered to motivate employees is hard to play. Finally, combining the current management situation of the company and the existing MBO theory, this essay puts forward some prospective suggestions and inspiration for the improvement of the company management mode.

2. Main body

MBO was first used as a company management strategy in the 1920s, and as it gained popularity benefits from the writings of Petter Drucker and others, it was widely used in the private sector during the 1950s and 1960s [5].

The phrase "management by objectives" was first introduced by Peter Drucker in his book *The Practise of Management* in 1954 [1]. Although Drucker did not come up with the fundamental concepts for MBO, they were combined with other management techniques to form a comprehensive system[11]. The essay *The Giving of Orders* by Mary Parker Follett from 1926 serves as a foundation for the theory. George Odiorne, a disciple of Drucker's, continued to refine the concept after the phrase and notion were introduced in his book *Management Decisions by Objectives*, which was

released in the middle of the 1960s [12]. Businesses like Hewlett-Packard, which asserted that MBO contributed to their success, popularised the concept [13].

It can be argued that MBO has an efficient structure that can improve the communication efficiency from the top manager to the grassroots staff so that both the management and the employees can clearly understand their own goals. It could be argued that communication and goal setting in an MBO structure seem to be crucial because problems often occur when the employees do not get clear about their goals. Without clearly set goals or clearly understood goals, they may do something other than what the manager expected [14]. Ponisciakova and Kicova (2021) [14] also argued that the results of confusing goals might be misunderstanding, numerous conflicts, and a waste of human resources. The structure of MBO can solve this problem of inefficient communication and unclear goals. According to Poister (1995)[5], a fully-fledged MBO process contains the following four parts. A clear understanding of the overall goals will firstly be gained by the top manager, which means the goals for the whole company or organization are established. Then, the subordinate manager and worker need to reach an agreement on the specified time frame for the worker objectives, which are set based on the overall goal. This step can ensure the management and workers clearly understand what they should do to help the organization's overall goals be realized. The manager and subordinate would have periodic meetings to discuss and make mid-course corrections to ensure that the targets can be reached. This step is necessary because effective communication can improve job efficiency. At the end of an MBO cycle, the worker's performance needs to be assessed, and the employees could get a bonus related to the assessment they received. It is conceivable that MBO has a tight link between the high-level manager and the subordinate manager and employees with efficient communication, progressively detailed goals, and performance appraisal. Therefore, it could be argued that MBO's structure, which uses an efficient communication method to operate a clear goal-setting system, may be efficient when managing an organization.

While the previously mentioned may be true in a particular social background, MBO's structure is no longer suitable or efficient for modern administration and management because of the changing business world. As Roth (2009)[10] mentioned, the markets, technology and societal trends of the increasingly turbulent business world are changing at an ever-increasing rate, which means the initial year's goals are probable to be eliminated within months, weeks, or even days. However, in most organizations, MBO usually takes the form of goal setting and assessment meetings taken off on a regular basis---often quarterly, semi-annually, or annually [15]. The cycle of MBO obviously can not keep pace with the changing environment, and therefore, there might be little point carrying on trying to meet the originally agreed goals, hoping that the reasons for failure can be accepted in the end explanation[10]. Even if the workers react to the supervisor and try to renegotiate the previous agreement, the goals will not be timely manner, because the supervisor has probably 10, 20, or even 50 direct reports. With the growing volatility of the environment, both internal and external of an enterprise, it is necessary for each report to be repeated evaluated on several occasions [10]. It will cost employees and supervisors a lot of time and energy. As a result, there is no denying that MBO's structure is at a low efficiency for the changing market.

In addition, it is possibly true that MBO's performance appraisal and bonus system can increase employees' motivation to work and better monitor employees' performance. In MBO theory, performance appraisal and bonus systems are of great importance to the final outcome for the employees. Ponisciakova and Kicova (2021)[14] suggested that the performance appraisal often works on a regular basis, like weekly, monthly or annually. Within the framework of regular evaluation, the results that the employees achieved are assessed, as well as employee performance on the job [14]. The purpose of those assessments is to provide employees with feedback on the current project and give the employees the opportunity to comment [14]. Coordinated and managed feedback cannot only make the project work better but also better control the employees. Moreover, through

the bonus system based on a defined proportion of turnover, the employees may be motivated to become active in their job because the size of the bonus is determined by how well they achieve their goals[14]. Thus, the company may strive for the highest potential economic result if the employees are engaged actively and try their best. Therefore, it could be the case that the performance appraisal and bonus system of MBO is a kind of motivation to the employees and helps better control the staff.

However, as team organizations become more complex and responsibilities become more interdependent, individual productivity can be difficult to assess. Levinson (2003)[9] made a similar conclusion, claiming that most jobs fail to adequately consider the increasing interconnectedness of management labour in firms. The more a man's efficacy is reliant on the actions of others, the less he can be held accountable for the results of his efforts[9]. A straightforward example is a marketing manager who relies on the manufacturing department to deliver the correct product type and quantity of the products. The production department, in turn, is reliant on proper procurement or other factors. All of this is influenced by the senior management's decisions [16]. The more serious issue is that fair evaluation is difficult since apparent disparities between people nearly invariably result from the actions of the system in which they operate, not from the people themselves[16]. In fact, in the case of deviations, Sudarsan (2009)[16] claims that 94% of the responsibility of a case belongs to the system, which means it is the responsibility of management and 6% to the employee. So, in the case of all performance, very little of them can be attributed to employees, whether good or bad [16]. Therefore, despite the assessment and bonus system of MBO being motivating, it is really difficult to assess individual productivity on account of the more complex organization and more independent responsibilities.

In modern circumstances, where change is becoming a regular component of corporate activities, more flexibility is required in reaching objectives. To achieve the objectives of the organization, compete successfully in the market, and boost management and operational efficiency, some companies incorporate contemporary trends into their programmes and work to enhance the current management systems, especially by implementing various optimizations [14]. Therefore, by analyzing the applicability of MBO, some enlightenments and suggestions can be found. MBO is included in most modern-day evaluation systems. As a result, the majority impede our attempts to continuously enhance the work environment, management systems, production or service processes, and product quality. However, how would we assess employee performance without a tool of this nature? Furthermore, how would we motivate staff to raise their game? One has a suspicion that increases in productivity, quality, and the bottom line may be directly related to well-integrated employee empowerment.

Employees at several businesses that are leaders in both quality and profitability typically:

1. Be able to get whatever information required to aid them in their endeavors
2. Are urged to make the decisions in accordance with their areas of knowledge
3. Have a voice in all decisions that will affect them, including who gets promoted; and
4. Be able to set and alter their objectives on a daily basis, as well as tackle issues as they arise with the support of the organizations.

These companies which try to improve their management mode

1. individual reward is truly tried to the success of the company as a whole.
2. the evaluation and reward system are designed to make employees eager to cooperate, share expertise
3. teams are given the authority to hire new members and to counsel, discipline, and even fire those whose performance is found lacking.

The number of these businesses is, fortunately, expanding. As a result of their awareness that they will benefit the most from the company's success, employees in these organizations are dedicated to working as a team. Since they are doing this, it is clear that they are continuously reviewing both their

own and their teammates' performance[10]. Therefore, no management model will always work. As times and circumstances change, the management model should also be flexible to change rather than sticking to one model. Engaging employees in ways that keep pace with the times and are relevant to the current situation can be very important.

3. Conclusion

In summary, MBO may be a useful theory for management in some particular social background, but it is no longer applicable to current business management. While MBO's structure may make the whole organization efficient and well-organized with the detailed operation steps, it is no longer suitable or even efficient for modern administration and management because of the changing business world. Moreover, individual productivity is really difficult to assess as team organizations become more complex and responsibilities become more interdependent despite how good the performance appraisal and bonus system in the MBO model is in increasing employees' motivation to work and better monitoring the employees. The researchers could be informed by MBO but should gather more methods which can make the strategic management mode well caught up with the changing business world and improve the assessment and bonus system more fair and specific for the employees when giving the assessment and bonus. The business environment is changing all the time, so no single management model is permanent. All of the management theories should continue to improve to be suitable for the changing environment, no matter how superior it once was. Moreover, Companies must adapt management styles to changing circumstances.

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