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Management By Objectives

Management by objectives (MBO) is a process through which organizational, unit, and individual performance objectives are (a) defined, (b) integrated into an overall plan, (c) used to distribute resources, (d) used as the basis of personnel development and training, (e) measured at the end of a specified period, and (f) built into the operations and personnel evaluation process.

MBO helps define what is to be done and establishes known standards and criteria for assessing performance. For MBO to be effective, it must be tied to consequences. If objectives are met, rewards should follow. If objectives are not met, the reasons for non-achievement should be analyzed, followed by remedial or disciplinary action as appropriate.

The critical element in MBO is the definition by manager and employee of both objectives and performance indicators. As part of this, manager and employee can decide what resources are necessary to meet the objectives. In this way the manager can provide opportunities for professional development (through job enrichment and job enlargement) in a regular program of preparing the employee for advancement. It creates a known standard against which progress can be measured.

The dangers of MBO are a blind adherence to predetermined objectives even when circumstances change, vagueness in managerial goals with which individual employee objectives are to be integrated, and the time and energy required to implement a MBO system thoroughly. MBO is probably of limited use at lower managerial and employee levels and more useful with managers who have some flexibility in carrying out their tasks.

When used as an element in personnel management and as a means of employee development, the steps in MBO look something like the following.

1. *Preliminaries:* Some time before the start of a designated period (e.g., the start of the fiscal or calendar year), the manager should distribute to all relevant employees information concerning organization and unit goals for the upcoming period as well as information on past performance. Employees are made aware of management priorities, the goals management intends to emphasize and any special circumstances that might affect development of individual employee objectives. Employees should be given a suitable time frame within which to prepare their individual objectives.

2. *Preparation of individual employee objectives:* During this time frame, *both* the manager *and* the employee prepare individual objectives for the employee. In some instances these are forwarded to each other in advance of a meeting to discuss the two sets of objectives. In other instances each person shares her/his objectives at a private meeting between manager and employee. In both cases the individual employee's objectives should reflect organization and unit goals as well as personal goals. This process allows determination of the degree to which management and employee perspectives are similar or different, and helps to reduce misunderstandings about expectations and an individual's place in the organization.

3. *Manager/employee meeting to discuss and negotiate objectives:* Whether objectives are shared in advance or at this meeting, its purpose is to allow both manager and employee to explain the reasoning behind the two sets of objectives, to recognize similarities, and to identify discrepancies. These discrepancies can be either (a) in content or (b) in evaluation criteria.

   - <u>Content discrepancies</u> occur when manager and employee have different objectives for the employee, that is, when they fail to agree on what the employee should be doing. For example, management might include an objective for staying within budget on the employee's projects; the employee might not have included this.

   - <u>Evaluation criteria discrepancies</u> occur when management and employee use different standards by which to measure employee achievements. For example, the employee might propose a 2% increase in program participation as meeting the objective for increased participation, while the manager might propose 2.5%.

In either case, manager and employee determine the reasons for the discrepancies and negotiate their resolution. Ideally, management does *not* impose objectives on the employee; there should be some give and take as the issues are clarified. In the end, however, management has the right to establish the standards it expects employees to meet, so long as these are clear and consistent among all similarly positioned employees. The process of negotiation should not be extended beyond this meeting if at all possible, but in some instances where misunderstandings are significant it is best to return for a second discussion.

4. *Agreement:* Once employee objectives have been agreed on (or determined by management in the event agreement is not possible), the manager should draft a letter outlining these objectives and the criteria for meeting them. This letter might also include identification of any resources or training to be provided to the employee to assist her/him in meeting the objectives. The manager should sign this letter and a copy of it. These are then given to the employee, who should sign the original and retain the copy. The original becomes part of the employee's permanent personnel file.

5. *Assessment:* These objectives serve as the standards by which an employee's performance can be assessed. This can occur throughout the period agreed on, thus permitting "formative evaluation" and "midcourse corrections," as well as at the end of the period, when the employee's achievements are the basis for personnel actions such as merit raises, promotions, training, remedial actions, and other disciplinary steps. Employee performance on one period's objectives should be factored in to the establishment of her/his objectives for the next and succeeding periods.

Although this example is based on an individual employee, the same process can be adapted to teams and other work units within an organization.