Management by Objectives

What is MBO?
Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identify their objectives, timelines for completion, etc. MBO includes ongoing tracking and feedback in the process to reach objectives.

MBO was first outlined by Peter Drucker in 1954 in his book 'The Practice of Management'. In the 90s, Peter Drucker himself decreased the significance of this organization management method, when he said: "It's just another tool. It is not the great cure for management inefficiency... Management by Objectives works if you know the objectives, 90% of the time you don't."

Core Concepts
According to Drucker managers should "avoid the activity trap", getting so involved in their day to day activities that they forget their main purpose or objective. Instead of just a few top-managers, all managers should:

- participate in the strategic planning process, in order to improve the implementability of the plan, and
- implement a range of performance systems, designed to help the organization stay on the right track.

It is all too easy for managers to fail to outline and agree with their subordinates what it is that everyone is trying to achieve. MBO is a process that requires precise written description of goals and timelines for their monitoring and completion. It is a sensible substitute for just good intentions. The process requires that the manager and the subordinate agree to what the employee must attempt to achieve in the period ahead and it is important for employees to believe in the objectives and understand what they are. Thereafter, managers and employees should regularly communicate to ensure that the objectives are being met as agreed and will be completed on time. Reliable management information systems (MIS) are needed to establish relevant objectives and monitor their penetration across the organization.

Organizations have scarce resources and so MBO ultimately helps to achieve the best resource allocation effort.

MBO is often achieved using set targets or goals. MBO introduced the SMART criteria i.e. objectives for MBO must be Specific, Measurable, Agreed, Realistic and Time-specific.