



UNIT I

MANAGEMENT PROCESS



3

CHAPTER

MANAGEMENT BY OBJECTIVES (MBO) MANAGEMENT BY EXCEPTION (MBE)

செயற்கை அறிந்தக் கடைத்தும் உலகத்து
இயற்கை அறிந்து செயல்.

—குறள் 637

COUPLET

Though you are acquainted with the (theoretical) methods
(of performing an act), understand the ways of the world and
act accordingly.



Learning Objectives

To enable the students to

- understand the meaning and definition of MBO and MBE
- understand the concept of Management by Objectives (MBO)
- understand the concept of Management by Exception (MBE)

Chapter Synopsis

3.01 Meaning and Definition of MBO

3.02 Objectives of MBO

3.03 Features of MBO

3.04 Process of MBO

3.05 Advantages of MBO

3.06 Disadvantages of MBO

3.07 Meaning of MBE

3.08 Process of MBE

3.09 Advantages of MBE

3.10 Disadvantages of MBE

MANAGEMENT BY OBJECTIVES (MBO)

3.01 Meaning and Definition

Management By Objectives (MBO) is a management system in which each member of the organisation effectively participates and involves himself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation's goal. It creates self-control and motivates the manager into action before somebody tells him to do something.

MBO is popularised in the USA by George Odiorne. According to him, "MBO is a system wherein the superior and the sub-ordinate managers of an organisation jointly identify its common goals, define each individual's major area of responsibility in terms of the result expected of him and use these measures guides for operating the unit and assessing the contribution of each of its members".

Prof. Reddin defines MBO as, "the establishment of effective standards for

managerial positions and the periodic conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning”.

3.02 Objectives of MBO

Management by objectives is intended primarily:

- i. to measure and judge performance
- ii. to relate individual performance to organisational goals
- iii. to clarify both the job to be done and the expectations of accomplishment
- iv. to foster the increasing competence and growth of the subordinates
- v. to enhance communications between superiors and subordinates
- vi. to serve as a basis for judgements about salary and promotion
- vii. to stimulate the subordinates' motivation
- viii. to serve as a device for organisational control and integration.

3.03 Features of MBO

1. An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.
2. MBO tries to combine the long run goals of organisation with short run goals.
3. Management tries to relate the organisation goals with society goals.
4. MBO's emphasis is not only on goals but also on effective performance.
5. It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.
6. It increases the organisational capability of achieving goals at all levels.

7. A high degree of motivation and satisfaction is available to employees through MBO.
8. Recognises the participation of employees in goal setting process.
9. Aims at replacing the exercise of authority with consultations.
10. Encourages a climate of trust, goodwill and a will to perform.

3.04 Process of MBO

The MBO process is characterised by the balance of objectives of the organisation and individual. The process of MBO is explained below:

1. Defining Organisational Objectives

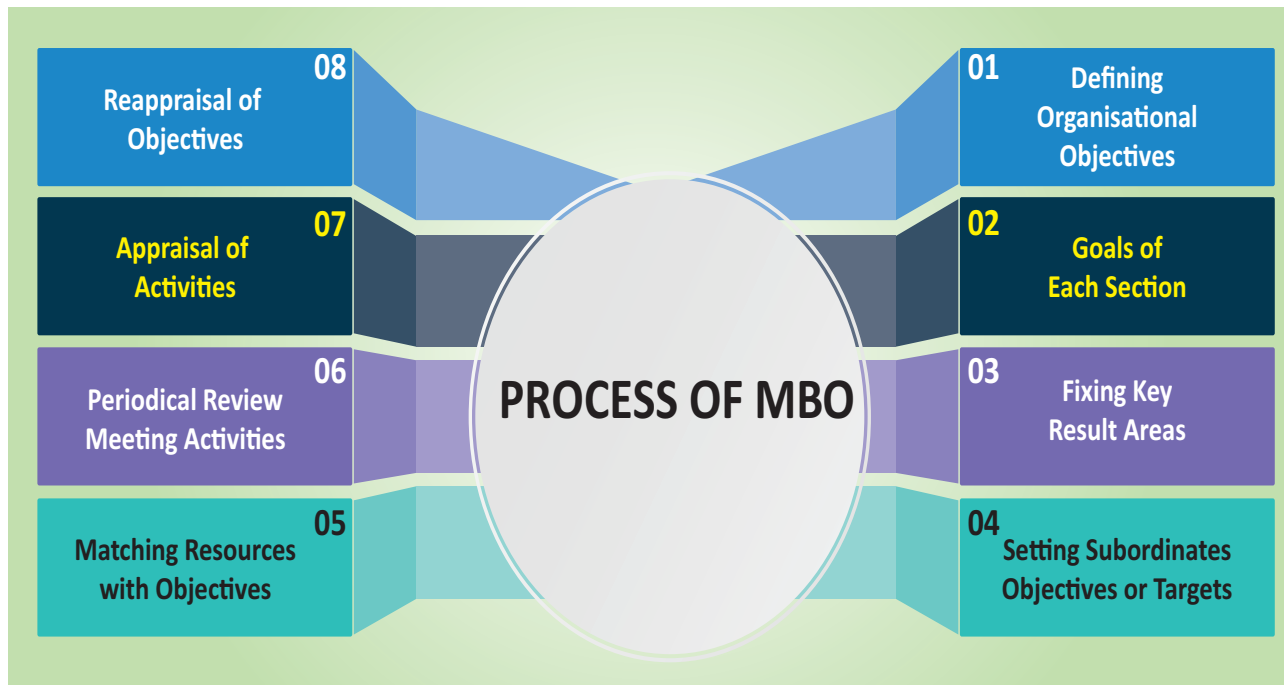
Initially, organisational objectives are framed by the top level employees of an organisation. Then, it moves downwards. The definition of organisational objectives states why the business is started and exists. First, long-term objectives are framed. Then, Short-term objectives are framed taking into account the feasibility of achieving the long-term objectives.

2. Goals of Each Section

Objectives for each section, department or division are framed on the basis of overall objectives of the organisation. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.

3. Fixing Key Result Areas

Key result areas are fixed on the basis of organisational objectives premises. Key Result Areas (KRA) are arranged on a priority basis. KRA indicates the strength of an organisation. The examples of KRA are profitability, market standing, innovation etc.



4. Setting Subordinate Objectives or Targets

The objectives of each subordinate or individual are fixed. It is preferable to fix the objectives at lower level in quantitative units. There should be a free and frank discussion between the superior and his subordinates. Subordinates are induced to set standards themselves by giving an opportunity. If subordinates are allowed to do so, they may set high standards and the chances of their accomplishment are higher. In this way, the objectives or targets of the subordinates are fixed.

5. Matching Resources with Objectives

The objectives are framed on the basis of availability of resources. If certain resources (technical personnel or scarce raw material) are not adequately available, the objectives of an organisation are changes accordingly. So, there is a need for matching resources with objectives. Next, the available resources should be properly allocated and utilized.

6. Periodical Review Meeting Activities

The superior and subordinates should hold meetings periodically in which they discuss the progress in the accomplishment of objectives. The fixed standards may be changed in the light of progress. But the basic conditions do not change. The periodical review meeting is held during the period set for achieving the objectives.

7. Appraisal of Activities

At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates. The discussion is related with subordinates' performance against the specified standards. The superior should take corrective action.

The superior should identify the reasons for failure of achieving objectives. The problems faced by the subordinates should be identified and steps should be taken to tackle such problems.

8. Reappraisal of Objectives

An organisation is a part of the dynamic world. There are a lot of changes within short period. The survival and growth of a modern business organisation largely depends upon putting up with the changing conditions. So, the top management executive should review the organisation's objectives to frame the objectives according to the changing situation.

3.05 Advantages of MBO

The advantages of MBO are explained below:

1. Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
2. MBO process helps the managers to understand their role in the total organisation.
3. Manager recognises the need for planning and appreciates the planning.
4. MBO provides a foundation for participative management. Sub-ordinates are also involved in goal setting.
5. A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organisation.
6. Systematic evaluation of performance is made with the help of MBO.
7. MBO gives the criteria of performance. It helps to take corrective action.
8. Delegation of authority is easily done with the help of MBO.
9. MBO motivates the workers by job enrichment and makes the jobs meaningful.
10. The responsibility of a worker is fixed through MBO.
11. Decision is taken by the management very quickly. The reason is that each worker knows the purpose of taking a decision and does not oppose the decision.

3.06 Disadvantages of MBO

The disadvantages of MBO arise due to the application of the MBO which are discussed below:

1. MBO fails to explain the philosophy; most of the executives do not know how MBO works? what is MBO? and why is MBO necessary? and how participants can benefit by MBO?
2. MBO is a time consuming process. Much time is needed by senior people for framing the MBO. Next, it leads to heavy expenditure and also requires heavy paper work.
3. MBO emphasises only on short-term objectives and does not consider the long-term objectives.
4. The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.
5. MBO is rigid one. Objectives should be changed according to the changed circumstances, external or internal. If it is not done, the planned results cannot be obtained.

MANAGEMENT BY EXCEPTION (MBE)

3.07 Meaning of MBE

Management by exception is an important principle of managerial control suggested by the classical writers on management. It is based on the belief that an attempt to control everything results in controlling nothing. Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.

For example, the production manager establishes quality control standards wherein five defects per 100 units produced are permissible.

So long as the number of defects does not exceed 5, the supervisors/foremen (subordinates) will handle the problem. Whenever there are more than 5 defects, the matter will be reported to the production manager.

Management by exception (MBE) has both a general business application and a business intelligence application. General business exceptions are cases that deviate the normal behavior in a business process and need to be cared for in a unique manner, typically by human intervention. Their cause might include: process deviation, infrastructure or connectivity issues, external deviation, poor quality business rules, malformed data, etc.

3.08 Process of MBE

Primarily, it is necessary to set objectives or norms with predictable or estimated results. These performances are assessed and get equated to the actual performance. Next, the deviation gets analysed. With an insignificant or no deviation, no action is required and senior managers can concentrate on other matters. If actual performances deviates significantly, the issue needs to be passed to the senior managers, as an “exception has occurred”. Finally, the aim is to solve this “exception” immediately.

3.09 Advantages of MBE

Management by exception provides the following benefits:

- i. It saves the time of managers because they deal only with exceptional matters. Routine problems are left to subordinates.
- ii. It focuses managerial attention on major problems. As a result, there is better utilisation of managerial talents and energy.
- iii. It facilitates delegation of authority. Top management concentrates on strategic decisions and operational decisions are left to the lower levels. There is increase in span

of control. This leads to motivation and development of subordinates.

- iv. It is a technique of separating important information from unimportant one. It forces managers to review past history and study related business data for identifying deviations. There is better use of knowledge of trends, history and available business data.
- v. MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.
- vi. Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

3.10 Disadvantages of MBE

- i. The main disadvantage of MBE is, only managers have the power over really important decisions, which can be demotivating for employees at a lower level.
- ii. Furthermore, it takes time to pass the issues to managers. Managing employees who deviate from the normal procedures. Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.

Key Words

Harmonise Appraisal Terminated



For Own Thinking

1. Discussion on the various functions of management, how it helps to MBE?
2. State your own view about MBO and MBE need to the management.
3. Make your own project about MBO and MBE with some examples.



Case Study

1. The company gets 30% of marginal profit for every year, but not increasing the salary of the employees for last three years. The employees conduct the indefinite strike against the company. Assume you are the manager of the company. How to solve the problem with using MBO or MBE?



Exercise



I. Choose the Correct Answers:

1. _____ System gives full Scope to the Individual Strength and Responsibility.
 - (a) MBO
 - (b) MBE
 - (c) MBM
 - (d) MBA
2. Which is the First step in Process of MBO?
 - (a) Fixing Key Result Area
 - (b) Appraisal of Activities
 - (c) Matching Resources with Activities
 - (d) Defining Organisational Objectives
3. _____ keeps Management Alert to Opportunities and Threats by Identifying Critical Problems.
 - (a) MBA
 - (b) MBE
 - (c) MBM
 - (d) MBO
4. Delegation of Authority is Easily Done with the Help of _____.
 - (a) MBM
 - (b) MBE
 - (c) MBO
 - (d) MBA

5. MBO is popularised in the USA by _____.
 - (a) Prof. Reddin
 - (b) George Odiorne
 - (c) Henry Fayol
 - (d) F.W Taylor

Answers:

1	a	2	d	3	b	4	c	5	b
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II. Very Short Answer Questions:

1. What are the objectives of MBO?
2. Bring out the meaning of MBE.
3. Mention any two advantages of MBO?
4. What is known as KRA?

III. Short Answer Questions:

1. Write the features of MBO.
2. What are the Process of MBE?
3. List out any three process of MBO.

IV. Long Answer Questions:

1. What are the major advantages of MBO? (any 5)
2. What are the advantages of MBE? (any 5)
3. Discuss the disadvantages of MBE.

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