Module 3

Management by Objectives; Decision Making, MIS

Chapter-5

MANAGEMENT By OBJECTIVES (MBO)

What is

Management by Objectives ?

Management by objectives

- Objectives are the endpoints, towards which activities are aimed.

- MBO is the philosophy of management that emphasizes
  - the development of objectives mutually by managers and their emplooyees and
  - the use of these objectives as the primary basis of motivation, evaluation, and control efforts.

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Management by objectives
(aligned to organisation's vision and mission)

- *The principle behind Management by Objectives (MBO) is*
  - *to make sure that*
    - *everybody within the organization has a clear understanding of the aims, or objectives, of that organization,*
  - *to be aware of*
    - *their roles and responsibilities in achieving those aims.*

  - MBO is the process of
    - **defining organization's goals and using them to determine employees' objectives**

Definition of MBO (George Odiorne)

- MBO is "*a process*
  - *where by 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*."
  - **George** Stanley **Odiorne (November 4, 1920 – January 19, 1992) was an American academic and management theorist.** He was one of the developers of the theory, Management by Objectives (MBO).

Goals and Objectives

The terms Goals and Objectives indicate an end result to be sought and accomplished.

- **Is there any difference between these two terms ?**

Goal and Objectives

Goal : It is a desired state (of affairs) which an organisation wants to realize.

Objectives are <u>established to guide the efforts of the organization and each of its components to reach the Goal.</u>

Objectives need to be SMART

- They should be concrete and specific.
- They should be measurable and controllable.
- They need to be achievable / attainable. They must be set within constraints.
- Different **objectives** must correlate with each other and are relevant
- It should be related to a time frame.

Areas in which Objectives need to be set

Peter Drucker identified 8 key areas in which organisations need objectives to be set up:

- Market Standing (Indigo Airlines Marketing Strategy)
- Innovation
- Productivity
- Physical and financial resources
- Managerial performance and development
- Worker's performance and attitudes
- Profitability
- Public and social responsibility (Eg Vande Bharat Mission)

Back to MBO

This approach was proposed by Peter Drucker in the 1960's, and by definition, process of management by objectives show

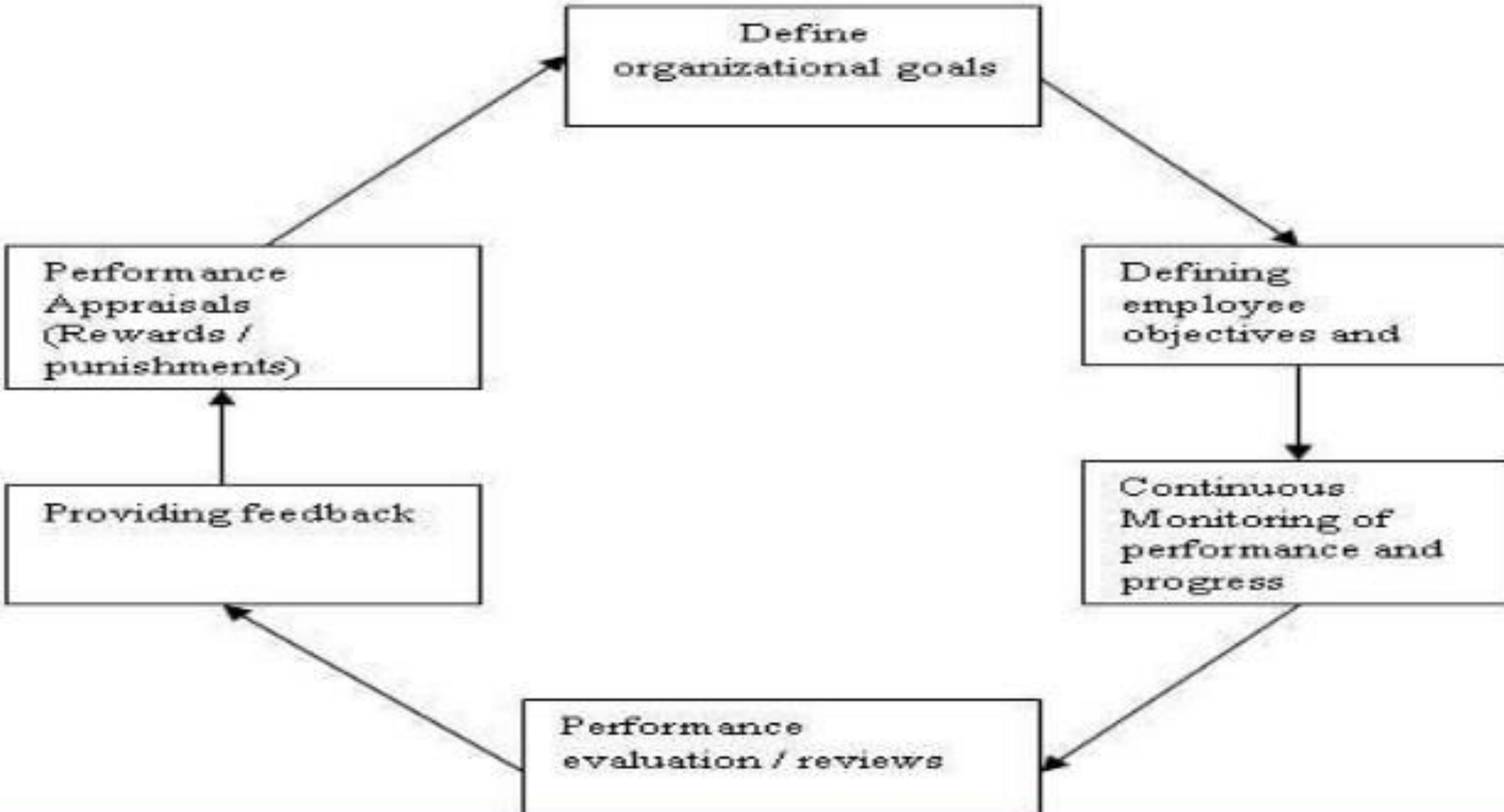
- ***a personnel management system,***
- ***where the organizations set, plan, monitor and achieve specific objectives***
- ***with the mutual cooperation of employees (both high level and low-level)***
- **To achieve greater efficiency and performance, employee's motivation is really important.**
- **Management by Objectives (MBO) is a best approach to do so.**

MBO : The Process

The process of MBO involves six key steps that incorporate managerial activities in a systematic way, to ensure effective achievement of individual and organizational objectives.

- Determining Organizational Goals
- Determining Employees' objectives
- Constant Monitoring of Progress and Performance
- Performance Evaluation
- Providing feedback
- The Performance Appraisal (Rewarding the good performers) (Example: top 3 % will be given additional increment)

‘Management by Objectives’ (MBO)



Example of MBO

Starting Objective	Framework			Resulting Objective	Rating Scale (% MBO Payout)	
Educate target accounts on upcoming launch product	**Specific**	Which accounts?	Tier-one targets	Conduct a client-education seminar or a lunch-and-learn session with seven tier-one targets by July 1	No sessions were conducted by July 1	**0%**
	Measurable	How many?	Seven		One to three sessions conducted by July 1	**40%**
	Attainable	Can they do it?	Yes		Four to six sessions conducted by July 1	**70%**
	Results-Oriented	Does it drive the desired objective?	Yes		Seven sessions conducted by July 1	**100%**
	Time-Bound	By when?	July 1		More than seven sessions conducted by July 1 **or** all seven conducted by June 1	**120%**

Differing levels of achieving an objective lead to differing levels of payout

Benefits of MBO

1. Clear Goals: MBO produces clear goals where performance is measurable.

2. Better planning: MBO sharpens the planning process with specific goals which are products of concrete thinking.

3. Facilitates control: A clear set of verifiable goals provide for exercising better control.

4. Objective Performance appraisal:

- MBO provides a basis for evaluation an individual's performance since goals are jointly set by supervisor and subordinates.
- Appraisals would be more objective and impartial since employee performance is evaluated against, verifiable objectives.

MBO benefits (Contd…..)

5. Motivational force: Motivates managers in forward planning and operate in an anticipatory mode rather than responding to events. It forces managers to think of result oriented planning rather than planning for activities.

6. Better morale: Participative decision making and two-way communication encourage the subordinates to communicate freely and honestly. It minimizes the possible misunderstanding.

7. Result-oriented philosophy: Managers are forced to develop specific goals, develop appropriate action plans, marshall the resources properly and establish the controls needed.

Some of the Challenges in implementing MBO

- It is Time-consuming
- Approach is Reward-punishment oriented
- Increases paper-work (Requires lot of effort)
- Problem of coordination
- Specific goal setting may be difficult at times
- Not having Trained managers on MBO approach
- Managers tend to feel Pressure and stress
- Leading to lack of flexibility in the name of setting up goals and objectives

Why organizations fail in MBO implementation? and how to succeed?

One of the reasons for the failure of MBO in many organisations is that those in charge of MBO process, fail in implementation process. The fault is not in the system but in its use.

How to succeed?

- The following suggestions would help in making use of MBO programs effectively.
  - Enhance Commitment levels among the staff
  - Focusing on Training (and sensitizing)
  - Allocate adequate time and resources
  - Timely, feedback and realigning the plans accordingly
  - Bias and Politics to be avoided

MBO vs BSC (Balanced Scorecard)

- Drucker introduced management by objectives (MBO) in the late 1950s.
- Kaplan and Norton introduced the Balanced Scorecard in the early 1990s.
- MBO and the Balanced Scorecard are management systems that align tangible objectives with an organisation's vision.
- BSCs were originally developed for for-profit companies but were later adapted for use by non-profits and government agencies.

Balanced Scorecard

- A balanced scorecard <u>is a performance metric</u> used to identify, improve, and control various functions and resulting outcomes.
- The balanced scorecard involves measuring four main aspects as to how they contribute to business:
  - Learning and growth, Business processes, Customers, and Finance.
- TCS follows this for performance evaluation approach for its employees
- BSCs facilitate to pool information in a single report, and to help improve efficiencies.

Case Study on MBO

- **The Impact of Management by Objectives (MBO) on Organizational Outcome in a Digital World: A Case Study in the Aviation Industry**
- A paper presented in a International conference on Digital Economy
- And published in Digital Economy. Emerging Technologies and Business Innovation in 2019
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Chapter-6

Decision Making; Creativity; and Management Information System

Decision Making

- Is the process of
  - examining possibilities and options,
  - comparing these alternatives, and
  - choosing a most viable course of action.

Some more details

- *“Decision making is the process of making a choice between a number of options and committing to a future course of action”.*
- Decision making requires choosing one course of action from among available alternatives.
- Managers diagnose problems, make **decisions** for solving them and monitor the consequences to see whether any modification is required.
- Good decision-making is a vital element of good management because decisions determine how the organisation solves its problems, allocates its resources and accomplishes its goals.

Important Characteristics of decision making

- <u>Goal-oriented</u>
- Evaluates the Alternatives
- Analytical-intellectual
- <u>Dynamic process</u>
- Pervasive function
- <u>Continuous activity</u>
- Commitment of time, effort and money

Types of decisions

Programmed and Non-programmed decisions

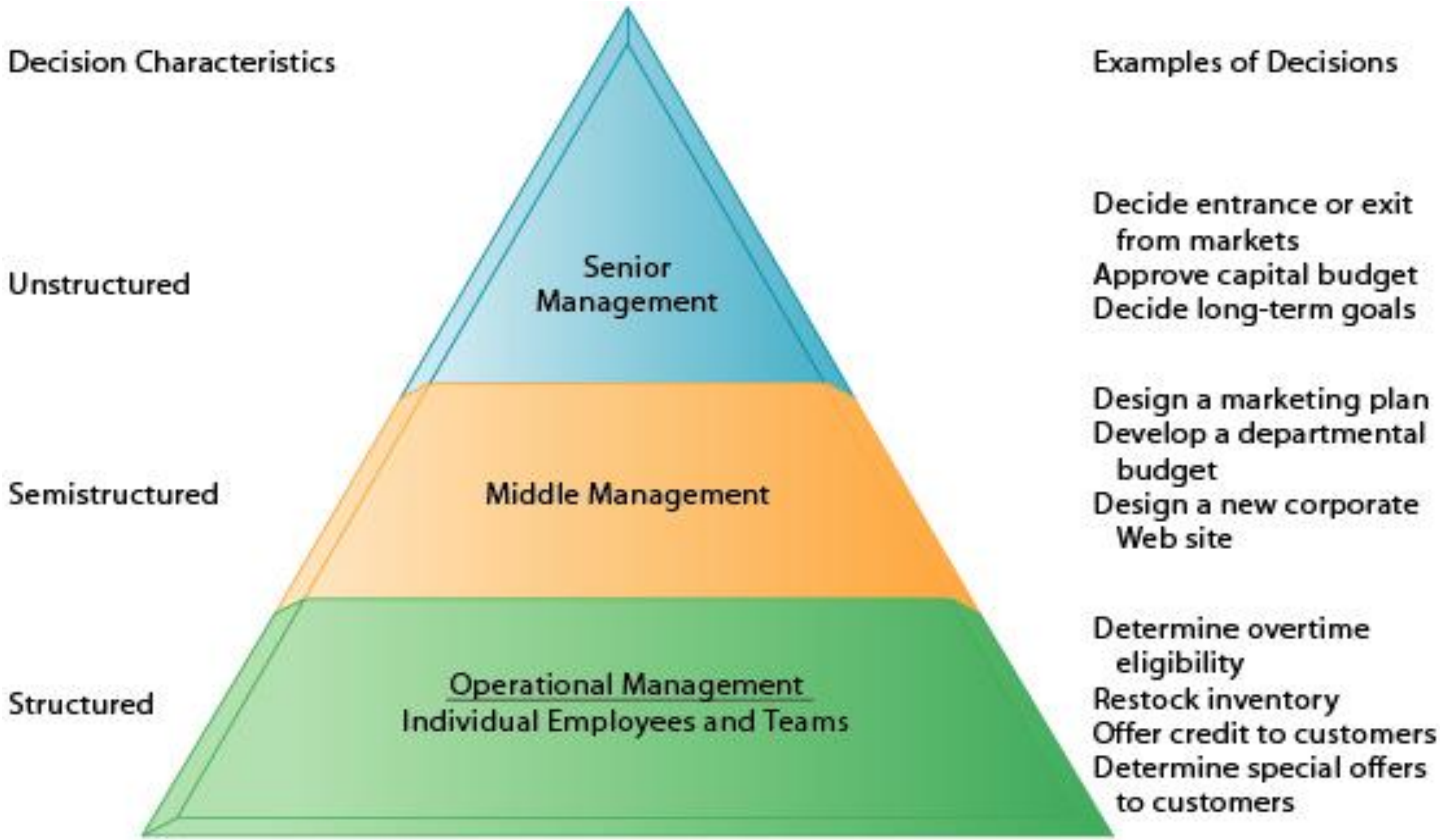
Programmed decisions

- Problems are routine and repetitive
- Decided in accordance with some rule, procedure or convention
- Conditions are highly certain
- Made by lower level officials

Non Programmed decisions

- Problems are unique and novel
- No pre-established policies or procedures to rely upon
- Each situation is different and needs a creative solution
- Conditions are highly uncertain
- Top management responsibility

Decision Making at Different Levels of Management



1. Basic vs Routine Decisions

Basic decisions are --

- Unique
- One time decisions demanding large investments
- Need Creativeness and good judgement on the part of managers

Routine decisions are --

- Repetitive in nature
- Require little deliberation
- Generally concerned with short term commitments

2. Personal vs. organisational decisions

Organisational decisions are --

- Made by managers in their official capacity
- Aimed at furthering the interests of the organisation
- Can be delegated

Personal decisions are --

- Such decisions are taken by managers in their individual capacity.
- Purely taken in personal capacity (eg., deciding at home trying what to do during leisure time : watch television, or study or retire early)

Decision making process

Making a good decision is a difficult exercise and requires a sequence of steps to be followed to arrive at a good decision

1. **Identifying the problem**
2. **Identifying the decision criterion**
3. **Allocating weights to criterion**
4. **Come up (develop) various possible alternatives**
5. **Analyzing these alternatives**
6. **Selecting the best possible alternative**

Decision making process

Making a good decision is a difficult exercise and requires a sequence of steps to be followed to arrive at a good decision

1. Identifying the problem

A problem is defined as a *discrepancy between an existing and a desired state of affairs.* Caution needs to be exercised to :

- **Make sure it's a problem and not just a symptom of a problem.**
- **Problem identification is subjective.**
- **Discrepancies can be found by comparing current results with some set standards.**
- Managers aren't likely to characterize a discrepancy as a problem if they perceive that they don't have the authority, information, or other resources needed to act on it.

Decision making process (Contd..)

2. Identifying decision criteria

- Identify the factors relevant
- Investment required
- Chances of failure
- Outcomes desired

3. Allocating weights to the criteria

- Prioritizing the items in the order of their importance in the decision making; assigning a weight to each item.
- Each possible solution must have features (*pros and cons*).

Decision making process (Contd..)

4. Developing alternatives

- Identify a viable alternative that could also resolve the problem.
- At this point we are just listing the alternatives

5. Analyzing alternatives

- Evaluating each alternative - its strengths and weaknesses.

6. Selecting alternative

- Choosing the best alternative

Decision making process (Contd..)

7. Implementing the decision

- Putting the decision into action by conveying into those affected and getting their commitment to it.

8. Evaluating the effectiveness of the decision

- Evaluating the outcome or result of the decision to see if the problem was resolved.
- If the problem still persists, the managers should re-assess the problem and start over again.

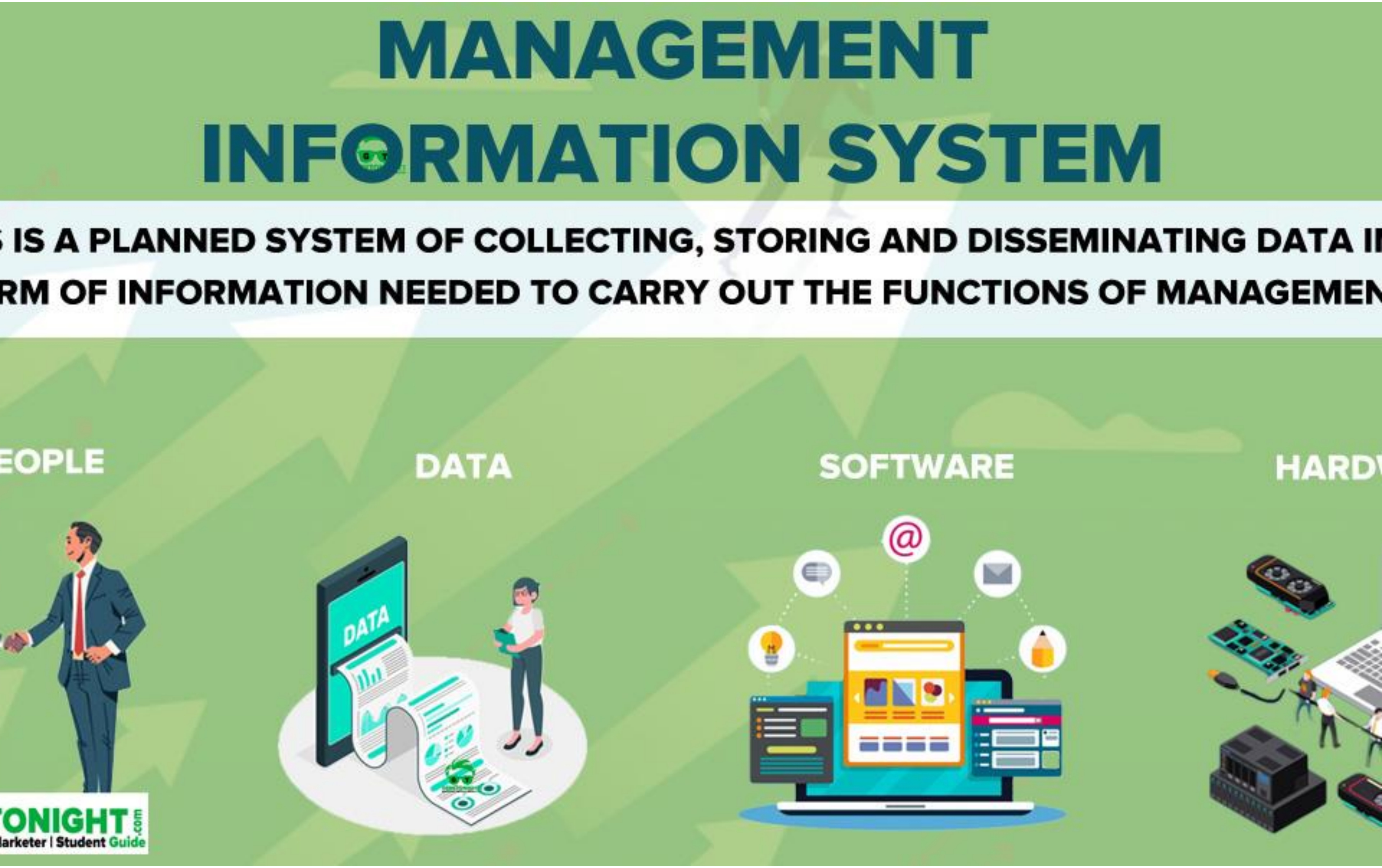
Individual Vs Group

- Individual Decision Making

- Group Decision Making

Advantages :

1. Compared to an individual, the groups generally have a greater knowledge, expertise, & skill base to make better decisions.
2. Larger number of members provide more perspectives of the problem.
3. With larger number of group members, the participation also increases that helps reach quality decision.


MANAGEMENT
INFORMATION SYSTEM
S IS A PLANNED SYSTEM OF COLLECTING, STORING AND DISSEMINATING DATA I
RM OF INFORMATION NEEDED TO CARRY OUT THE FUNCTIONS OF MANAGEMEN
EOPLE
DATA
SOFTWARE
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Need and importance for MIS

MIS offers vital information to managers, so that they can carry out operational control, management control and strategic planning.

Operational Control : MIS offers highly accurate and detailed information, on a daily or weekly basis on the operations.

Middle Management :

- Middle level managers need information on matters affecting their units such as *sudden sales decline*, increased demand for a particular product line, problems with suppliers etc.

Top management :

- MIS provides information on overall financial performance of the organization, and also information relating to external sources to enable the top management to facilitate **strategic planning and management control.**

Designing MIS- Steps involved

1.Problem definition - The team starts by making a thorough assessment of the organisation's capabilities and strategic goals, as well as an assessment of any external factor relevant to organisations functions.

2.Conceptual design - A thorough analysis of current information systems would reveal alternative MIS designs with specific performance requirements. These alternatives could be evaluated against organisational objectives, capabilities and requirements.

3. Detailed design - Once a conceptual plan is decided upon, performance specifications of the new MIS can be established. Components, programming, flow chatting, database can be designed. A model of the system is created, tested, refined and reviewed until it meets the specific levels of performance.

4. Final implementation - The logistics are worked out and enacted.

- Design and testing of software for MIS will be completed and the organisations databases are entered into the system.
- After a series of final checks, the MIS is ready for implementation.
- Training program starts now.

Guidelines for effective design of MIS

- User participation is a must
- Cost-benefit analysis gives us the feasibility
- Relevant information needs to be made available promptly
- Implementation strategy to see what is more practicable : Pilot installation, Phased installation, or Parallel installation
- Training and user help documentation for acquipping the operators

Case Study

- Management Information System [MIS] and its importance in Aviation Industry
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The operation, as Foreign Minister S Jaishankar said is titled 'Vande Bharat Mission'.

- India has a history of bringing its stranded citizens from abroad in the time of crisis.
- Once again a massive airlift operation will commence from Thursday to repatriate about 15,000 Indians from 12 countries.
- Indian citizens have been trapped in different countries worldwide in the wake of the deadly COVID-19 outbreak.
- In this process, Air India is set to operate 64 special flights from May 7 to May 13. This would be the world's largest evacuation mission by a country.

VANDE BHARAT MISSION

7 May to 13 May 2020
14,750 Indians to be evacuated from 12 Countries

No. of Indian Nationals to be evacuated in the Vande Bharat Mission

Country	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Country Total
UAE	400	400	200	200	200	400	200	2,000
UK	250	250	250	250	250	250	250	1,750
US	300	300	300	300	300	300	300	2,100
Qatar	200	0	0	200	0	0	0	400
Saudi Arabia	200	0	200	0	200	200	200	1,000
Singapore	250	250	0	250	250	250	0	1,250
Malaysia	250	250	250	250	250	250	250	1,750
Philippines	250	0	250	0	250	250	250	1,250
Bangladesh	200	200	200	200	200	200	200	1,400
Bahrain	0	200	0	0	200	0	0	400
Kuwait	0	200	200	200	0	200	200	1,000
Oman	0	0	250	0	0	200	0	450
Total	2,300	2,050	2,100	1,850	2,100	2,500	1,850	14,750

Source: Ministry of External Affairs COVID-19 Cell

EMBA Pro Marketing Strategy Solution for Indigo Airlines case study

- The case focuses on the profitability of the Indian aviation industry and explains how Indigo Airlines, a new entrant in the Indian aviation space, registered profits within three years of its inception while its competitors continued to struggle with losses.
- The case demonstrates how a firm incorporating innovative business practices can not only survive but also earn abnormal profits.
- The strategies adopted by Indigo Airlines to reduce its operational cost and enhance its revenue are discussed in the case.
- The case also explores whether the profits earned by Indigo are sustainable in the long run and focuses on the changes in the competitive positioning of Indigo Airlines as it switches from the position of a low cost player to a hybrid player in the aviation industry.

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