

## **THE MANAGEMENT BY OBJECTIVES –TOOL USED FOR REMODELING THE ROMANIAN ORGANIZATIONS' MANAGERIAL SYSTEM**

*Alina-Maria FĂRCAȘ<sup>1</sup>  
Daniela-Roxana VUȚĂ<sup>2</sup>*

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### **ABSTRACT**

*The management by objectives is a concept that aims to solve the problems facing modern organizations. Being a cyclical process, which takes place annually, MBO is very easy to implement, and then updated in order to be maintained.*

*This paper proposes the use of this concept as a tool to reshape the managerial system, by scrolling through well-established phases at S.C. RELEE S.A. After the implementation and the observation of the method effectiveness, were formulated some conclusions in order to improve the implementing steps and goals.*

*In conclusion, the management by objectives is nothing but a tempting challenge for managers who persuade them to "rediscover" their primary function: the one of creators and implementers of strategies. The MBO is the way the modern manager can put up really strong and powerful organizations with strong development opportunities*

**KEYWORDS:** *MBO, modern organizations, objectives, tool, managerial system.*

**JEL CLASSIFICATION:** *M19*

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### **1. INTRODUCTION**

Launched in 1954 by Peter Drucker in "The Practice of Management" MBO - Management by Objectives - is the management tool that enables the increase in performance of by focusing on results, not on the work itself, providing cascade and align the company goals with individual goals of managers who are at different levels within the organization (Popescu, 2013).

Management by objectives is based on the rigorous determination of the objectives up to the executors' level, who participate directly to their establishment and the close link between rewards and sanctions with the achievement of the established objectives (Deac, 2014). This method was generated by the need to ordering actions based on the idea that the success in implementing a development strategy for the unit depends on the correlation of the general objectives with the ones of organizational subdivisions and the interest of the entire personnel of the economic unit.

### **2. CHARACTERISTICS OF THE MBO**

Considered to be one of the most complex and most widespread management system and also controversial by some specialists, the management by objectives can be defined, in the opinion of and O. Nicolescu and I. Verboncu as a "management tool focused on the rigorous determination and derivation of the objectives to the posts and executants directly involved in their establishment and

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<sup>1</sup> Academia de Studii Economice din Bucureș ti, România, alina.farcas90@yahoo.com

<sup>2</sup> Universitatea „Alma Mater” din Sibiu, daniela.vuta@uamsibiu.ro

correlation of rewards / sanctions with the degree of realization of these objectives " (Nicolescu & Verboncu, 2007).

In essence, the management by objectives is a structured technique and belonging to field of management sciences, technique through which you can fix goals for any of the organizations that we know.

Properly implemented and rigorously applied the management by objectives is a highly effective solution to the underlying problems that are facing the modern organizations and is becoming more acute. Over time as a form of expression of the needs that define the very purposes for which organizations exist have crystallized major components that characterize the management by objectives (Guerras-Martin & Ronda-Pupo, 2013). Briefly, they are presented as:

- The objective system, that highlights the fundamental sets of goals, specific derived objectives and individual targets;
- Action programs, by means of which are highlighted major decisions and actions to be taken and initiated to achieve the objectives;
- Calendars deadlines, that specifies intermediate and final deadlines to achieve the objectives;
- Guidelines, general or partial, resulting in methodological guidance on how to achieve the objectives;
- Budget developed for the firm and its components addressed as management centers.

The main characteristics of management by objectives are:

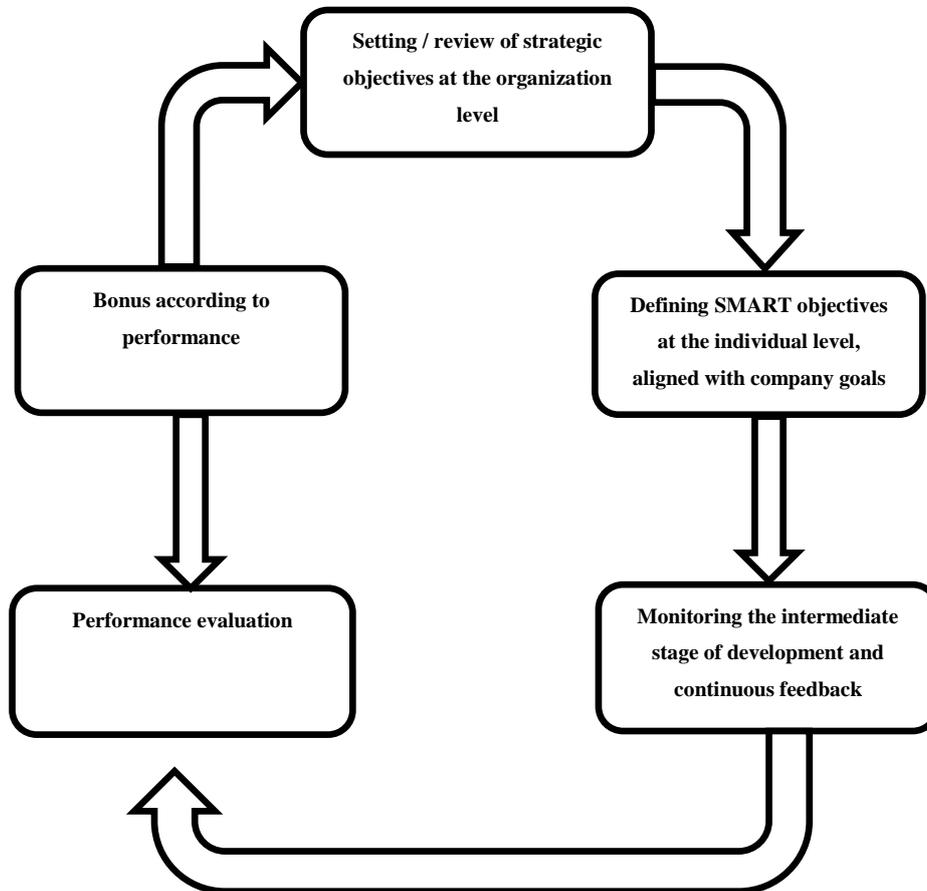
- the high complexity, given by the fact that the application to cover all procedural and structural components of the organization and in its context can be used many methods and management techniques according to the problems raised by grounding components and achieving the goals;
- the managerial dimension, namely managerial decentralization within the company, given the emergence of new "actors", called centers of administration, characterized by the tasks, responsibilities and superior skills of the simple hypostasis of organizational subdivision (activities or competent);
- The economic dimension, ensured by using the budget as an important managerial tool. It develops, launches, executes and follows both the firm level and at the level of middle administration. For it is facilitated to call other economic levers, with outstanding motivational valences (profit, wages, prices etc);
- The participatory dimension, meaning that into the development of the objectives and other budget components it is needed and it facilitates the active and responsible participation of management centers leaders and other managers and executives of them;
- The motivational dimension evidenced by the correlation of rewards / sanctions with the degree of achievement of individual objectives, management centers and company as well as the degree of involvement and participation of each employee to achieve them.

The main managerial tools used in the context of management by objectives are evidenced by diagnosis, extrapolation, the method of scenarios, market research studies, delegation, meeting, management through budgets, rules of organization and functioning, flow chart, functions descriptors, job description etc.

As any system or method of management, also the management by objectives faces a set of limitations, mainly due to behavioral problems of staff, commendable efforts directed towards applying management by objectives, the difficulty of individual targets for all posts within the organization.

Being interconnected with the bonus system, MBO can become an effective tool for motivation and development (Drucker, 2010).

According to Peter Drucker, MBO is a cyclical process, usually annual, that contains the following 5 steps:



**Figure 1. The process of MBO**

*Source:* adapted from <http://www.rauflorin.ro/management-prin-obiective-mbo/>

The MBO is linking the strategic thinking of the top management and the implementation of management through the next levels strategy. Thus, the responsibility against objectives is translated from the level of organization at the individual level.

For the MBO to achieve their goals is essential that the organization members to have a common and unity understanding and on the organization's objectives, to realize the important role they play in achieving these objectives.

Managers must clearly define the objectives and the evaluation system of the results, should make them available to the team, to organize and motivate subordinates to forge ownership, to provide / receive continuous feedback, to monitor partial results, to evaluate performance and provide the conditions for their development and the team members.

A good manager stimulates, motivates, delegate tasks and responsibilities taking into account the strengths of each individual. A good manager motivates by clearly defining the result to be achieved, providing freedom of action and encouraging the discovery of the path to result. The path imposed by the result often leads to failure and demotivation.

In more and more companies, MBO started to be integrated into the Program Evaluation and Development of employees, as soft skills defined by the key skills of organization begin to have a

share of increasingly higher individual performance and between SMART objectives, soft skills and Individual Development Program there is a close interdependence and correlation.

### 3. THE IMPLEMENTING STEPS OF MBO WITHIN S.C. RELEE S.A.

S.C. RELEE S.A. is a company in the electrical and electronics industry that in the last years is facing with several problems:

- the large number of complaints from customers;
- lack of recent training and evaluation of employees and their powers;
- exceeding delivery deadlines;
- inefficient staff recruitment;
- the lack of a material base updated to the market requirements.

According the problems above, the operationalization of the method involves making a set of actions that take place in a logical succession forming the next steps:

- *The first phase* coincides with setting the overall objectives. This step is carried out by the making the plan and the strategy of developing the unit. It optimizes the final economic results of the unit. A particularly important role at this stage, it has the scientific validity of each target, their knowledge by all unit components, a clear indication of the system of rewards and sanctions. Knowing the objectives by managers and performers are realized by practicing specific methods of participatory management.
- *The second phase* coincides with setting the derivate, specific and individual goals. The general objectives set in the previous step are broken down by organizational divisions depending on each specific activity, so that these can be allocated to each lineup work and where is possible on each worker. After their scheduling follows another moment of utmost importance: analyzing and determining the means and ways of achieving the goals. At this stage is analyzed the capacity of serving the sectors that will have to ensure the development of the activities according to the performances required by achieving the goals.
- *The third phase* coincides with the development of the other components of the method - the action programs, the reporting period, the list of methods, budgets etc. These components are developed at both the unit and each structural component part. Is developing and scaling of revenue and expenditure budget. It reflects the actual situation in each organizational subdivision.
- *The fourth phase* involves the adoption of a program of measures designed to ensure the changes that are imposed on the organizational structure of the unit, and at the decisional and informational subsystem.

Regarding the organizational structure shall consider the following: restructuring of ineffective jobs and functions in order to increase the ability to streamline the company.

Regarding the decisional subsystem is envisaged the delimitation of authority and responsibility of each decision maker, specifying the system of decisions to be adopted by each. It also sets the level of deviations to be communicated to the higher-level decision maker.

To achieve the established objectives an important role is having the adoption of the information subsystem to the new conditions. The informational subsystem, besides the usual functions, must ensure the prompt information of the decision makers regarding the achievements or deviations from certain reporting deadlines.

- *The fifth phase* is to follow the achieving of objectives. The essence of the activity from this step is the decision center communication of the irregularities that have arisen in achieving the objectives. It has a particularly important role because the information relating to occurred deviations are initiated the correction decisions. Also, through the discovery of

some reserves that were not considered initially, new decisions can be formulated to ensure higher performances achievement of the objectives set.

- *The sixth phase* is to assess the achievement of the objectives and rewarding the staff. The conclusions of the analysis in this phase is the starting point for establishing and foundation new goals in the next period.

Experimentation and putting into practice of the method can be achieved at two levels: in a sector of activity or at the levels of the economic unit. Also, it will precede some actions such as specifying the sector to be held; training of all personnel from the sector regarding methodology for implementing and the objective pursued; staff information from the other sectors and sectors with regard to experimentation method etc.

Experimentation and introduction of the method at the unit level has the advantage that all personnel is involved in this activity. For the success of this method it is necessary that the action program to be kept as complete and his application to be tracked carefully in all work phases.

The introduction and practice of management by objectives method, is experiencing some difficulties both organizational and psycho-social.

Organizational difficulties concern: establishing correct the derivate objectives on organizational subdivisions and especially between the production ones and serving ones, the correct assimilation by all employees of the methodology required by applying the method, the poor information of all staff from the unit etc.

Psychological difficulties relate mainly to the ones linked to personnel behavior from the unit and, in particular, at the receptivity of managers at different hierarchical levels.

Overcoming challenges and fructify the advantages it provides the practice of this method will ensure obtaining superior results in the economic activity of the unit.

The practice of management by objectives method appeals to all manager skills, involving a thorough training of these, a well-informed staff. It is made specifically in relation with the qualities of the existing managers in the enterprise, communication system adopted by the concrete conditions in which the economic unit operates.

#### **4. MANAGEMENT BY OBJECTIVES IMPLEMENTATION STAGES WITHIN S.C. RELEE S.A.**

**Sequence 1:** Fetching fundamental objectives from the organization's strategy;

**Sequence 2:** Outlining the categorical objectives system;

**Sequence 3:** Developing the organization's general budget;

**Sequence 4:** Delimiting and dimensioning management centers;

**Sequence 5:** Developing budgets for management centers;

**Sequence 6:** Developing the level of the normal cost per product or service, taking into account both the direct costs (raw materials, direct salaries) and also its own operating costs of functioning the management centers;

**Sequence 7:** Launching the control center budgets;

**Sequence 8:** Achieving budgetary execution, which involves operative recording and transmission of deviations from expected normal expenses;

**Sequence 9:** Filling specific layouts of the dashboard for organization management that include details on the results from achieving the goals;

**Sequence 10:** Determining the amount of material rewards / sanctions to be given to employees depending on the degree of objectives achievement.

## 5. CONCLUSIONS

After the implementation of this method at S.C. RELEE S.A., there were observed some advantages, but also some disadvantages that are shown below:

Advantages of implementing the MBO:

- focusing the efforts of all the components of the company to achieve the preset objectives;
- managers skills development to scrutinize the future of the unit, to be flexible and dynamic in action;
- improving interpersonal relations from the unit and broadening of accountability to all components;
- ensuring the widespread application of participatory management techniques;
- amplification of the entire staff motivation level from the unit;
- rationalization of managers time in exercising the control function and in solving the perspective problems of unity;
- closer correlation of the wages with the results obtained in achieving the objectives;
- the economic efficiency increasing of management activity and achieving better results on economic activity as a whole unit.

Disadvantages of implementing the MBO:

- high consumption of time;
- possible conflicts between managers and subordinates;
- problems on various hierarchical levels;

In conclusion, the efficiency of the management by objectives depends to a very large extent on how goals are setting, namely:

- objectives must be specific and measurable;
- in declaring the objectives should be included the temporal element;
- objectives must be clear and unambiguous;
- all targets must be results-oriented;
- there must be agreement between the organization's policies and objectives.

The management by objectives is nothing but a tempting challenge for managers who persuade them to "rediscover" their primary function: the one of creators and implementers of strategies. The MBO is the way the modern manager can put up really strong and powerful organizations with strong development opportunities.

By putting into practice this method, the managerial system of the organization becomes more stable being updated annually when resuming the MBO cycle.

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