

MBO IN LIC AND HDFC INSURANCE

Dr. KhushdipKaur*

ABSTRACT

Management by objectives (MBO) is a management model that aims to improve performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans should ensure better participation and commitment among employees, as well as alignment of objectives across the organization. The term was first outlined by management guru Peter Drucker in 1954 in his book "The Practice of Management." MBO is an effective technique for performance evaluation and for motivating subordinates by its proper implementation and developing communication between executives at all levels . The present study focuses on comparison of views of employees of LIC and HDFC with regard to their general opinion about MBO practices, their say in determination of their targets and extent of participation in goal setting.

Key words : MBO, goal setting, participation, determination of targets

* **Khalsa College for Women, Ludhiana**

INTRODUCTION

MBO is one of the Rational School of Management's successful products. It is also called as "Management by Results" which is concerned with the joint participation of subordinate and superior in the establishments of clear and specific objectives for each individual and unit.

Management by objective is one of the techniques by which executives can improve organizational performance and effectiveness. The idea of MBO was contributed by **Donaldson Brown** and **Alfred Sloan** in 1920 and **Edward Hagenin** in 1930s. **Peter Drucker**, a noted management writer introduced the term MBO in 1954. **Drucker** said "the manager must know and understand what the business goals demand of him in terms of perform once and the superior needs to understand what he expects of his subordinate managers. The subordinate intern needs to be able to know what in the way of results he should hold himself accountable for".

According to **Rodgers and Hunter**, MBO contains three main characteristics "participation in decision making, goal setting and objective feedback". Participation is used to create common perception for organization as a whole. Goal setting entails "the continuous review and revision of objectives" while objective feedback is the tool for managers to assess subordinates on progress toward goal achievement.

The development of MBO in the nineteen-sixties significantly enhanced the possibility of providing opportunities to the managers to participate in setting their own goals, in planning their own work and in monitoring, appraising, controlling and improving their own performance. It has provided a wider perspective and given a deeper meaning to appraisal. It has led to a system of appraisal which facilitates the integration of the manager's personal goals with the goals of the organization.

"Management by Objectives(MBO) in the recent years has gained popularity. It has been attempted to rate an individual after prescribing objectives-objectives preferably set in consultation with him. But this measures measurable at expense immeasurable", said **Guleck**.

REVIEW OF LITERATURE

The areas of MBO which have received attention in the MBO research and which appear to be of particular interest to MBO users are- Introduction of MBO into organization, the manner in which the objectives are set and Review of objectives.

Researches at the University of Kitencky found MBO programme introduced by the top management had a more positive effect on the satisfaction of the managers needs than a programme introduced by the personnel department. In the approach top managers not only used MBO in their jobs but also trained their subordinates in the MBO process.

In 1957, **Douglas McGregeor**, a scholarly writer on management in his classic paper, while criticizing trait appraisal system, strongly pleaded for appraising on the basis of present objectives, which lend good and constructive criteria of evaluation. According to his thinking this will foster the development of subordinates and motivate them for future performance.

In the review of the research literature devoted to MBO, **Robert Rogers and John E. hunter** examined 70 reports that included quantitative evaluation of MBO programs. Their findings showed productive gains in 65 out of seventy evaluation studies. The average productive increase was 47%, while cost data showed an average saving of 26%. Employee attendance was shown to improve by 24%.

In a 1991 comprehensive review of thirty years of research on the impact of Management by Objectives, Robert Rodgers and John Hunter concluded that companies whose CEOs demonstrated high commitment to MBO on average a 56% gain in productivity. Companies with CEOs who showed low commitment only saw a 6% gain in productivity.

Regarding subordinate's participation in goal setting **Merrit and Berger**(1998) interviewed 22 managers and executives in hospitality industry to determine the utility in goal setting. Their results indicated that goal setting provided a great opportunity for these people to manage both themselves and their subordinates.

Poister and Streib(1995) conducted the study of municipal government: Variation and traditional management tools. This study examined the application of MBO throughout local government in US. The results of the study suggested that MBO was till an effective management tool and widely implemented in the local government.

In the study of communication of MBO, **Olthoff, R. and Hogendoorn, M.**(1999) indicated that by planning objectives, communication between managers and subordinates will be efficient. The authors revealed that “goal setting increases the value of communication, which will lead to an increase in the successful completion of goals in the business settings”

OBJECTIVES OF THE STUDY

1. To study the general opinion of the employees about the prevalent MBO system in the LIC & HDFC Insurance.
2. To study the extent of participation of subordinates in determination of their targets.
3. To examine the factors affecting goal setting in LIC & HDFC Insurance.

SCOPE OF THE STUDY

Scope of the study was limited to various branch offices of LIC & HDFC Insurance situated in Ludhiana district.

RESEARCH METHODOLOGY

The study is primarily based upon primary data collected through questionnaire comprising of questions related to awareness of executives with regard to MBO as an appraisal tool used in their organizations, say of subordinates in determination of their targets and to what extent they participate in goal setting. Convenient sampling method was used to collect data from the 40 respondents of LIC and 40 respondents from HDFC Insurance. Data was analyzed with the help of statistical techniques like chi-sq. and z-test. Chi-sq. was applied to examine the responses of employees of LIC and HDFC Insurance with regard to clarity of goals to employees and involvement of employees in determination of their targets. Z-test was applied to do comparative analysis of factors affecting the goal setting.

ANALYSIS AND DISCUSSION

MBO process provides sound criteria for evaluating the performance of employees and helping the organization to plan strategies, goals and targets. It is necessary that every employee of the organization should have proper knowledge of prevalent performance appraisal methods like MBO used in their organization.

General opinion regarding MBO

Respondents were asked about what they understand about MBO as an appraisal method. Basic understanding of MBO was examined on three aspects:

1) Instrument of motivation 2) Analysis for company's performance 3) Assessment of individuals.

TABLE 1

General opinion regarding MBO

OPINION	LIC		HDFC		Z-Value
	No.	% Age	No.	% Age	
Instrumentation of Motivation	9	22.5	12	30	0.76ns
Analysis for Company's performance	13	32.5	2	5	3.15***
Assessment of individuals	18	45	26	65	1.80*

*SIGNIFICANT AT 1% LEVEL

Results shown in Table 1 reveal that 45% of the respondents of LIC consider MBO as a method of 'Assessment of individuals' where as 22.5% of respondents regard it as 'Instrument of motivation'. In case of HDFC Insurance also maximum no. of respondents i.e.65% are of the view that MBO is a method of 'Assessment of individuals' and 30% responded that MBO is an 'Instrument of motivation'. The Z-value shows that there is no significant difference between the responses given by respondents of LIC and HDFC Insurance with regard to MBO as 'Instrument of motivation' and 'Assessment of individuals'. But significant difference is found (z-value=3.15) at 1% level of significance as far as MBO used as 'Analysis for company's performance' is concerned. In LIC 32.5% of the respondents are in favour of this aspect where as in HDFC Insurance, only 5% of the respondents agree to it.

Setting of goals

It is necessary that before fixing the targets every manager should discuss the key performance areas and targets with his subordinates in the beginning of the year. This type of involvement highly motivates the employees. Responses were sought, whether subordinates have say in the determination of their targets or not.

TABLE 2

Discussion by superiors with subordinates before setting goals				
Discussion	LIC		HDFC	
	No.	% Age	No.	% Age
YES	20	50	34	85
NO	20	50	6	15
chi-square		11.17***		

Results given in the Table 2 show that 50% of the respondents of LIC said that management discussed the goals with them before setting it where as 50% of the respondents said that they were not asked before setting the goals. In case of HDFC Insurance 85% of the respondents responded that they had proper discussion with their superiors before setting the targets. The chi-sq. value (11.17) describes that there is a significant difference at 1% level of significance in the responses given by employees of LIC and HDFC Insurance regarding say of subordinates in determination of their targets. It can be concluded that subordinates' participation is more in case of HDFC Insurance as compared to LIC.

Extent of participation

Respondents were also asked to what extent they participate in setting of goals. Results reveal (Table 3) that in LIC 7.50% of the respondents responded that they participate to maximum extent in setting goals where as 82.5% of employees responded that they participate to some extent in setting goals, while 10% respondents said that they participate to low extent. In HDFC Insurance 57.5% of the employees responded that they participate to maximum extent in goal setting while 7.5% of the respondents responded that they participate to low extent in goal setting.

TABLE 3

Extent of participation of subordinates in discussion regarding goals				
Extent	LIC,India		HDFC	
	No.	% Age	No.	% Age
To maximum extent	3	7.5	23	57.5
To some extent	33	82.5	14	35
To low extent	4	10	3	7.5
Mean	1.98		2.5	
SD	0.42		0.64	
t – value		4.30***		

The mean value of HDFC Insurance is significantly higher than LIC at 1% level of significance. The mean value of HDFC Insurance is 2.50 and of LIC is 1.98. The t-value (t=4.30) describes that there is a significant difference in the responses given by employees of LIC&HDFC Insurance with regard to participation of subordinates in goal setting.

Researches done on the topic highlight that the participative form of MBO is very necessary for the success of MBO program . MBO has significant impact on extra role behavior.

Factors affecting the goal setting

Employees responses were examined on four parameters i.e. Lack of interest on superior's part , 'Lack of interest on subordinate's part' , 'Lack of time on superior's part' and 'Lack of time on subordinate's part'to find out which factors affect goal setting in LIC & HDFC Insurance.

TABLE 4

Factors affecting goals setting in the organization					
Factors	LIC		HDFC		Z - value
	No.	% Age	No.	% Age	

Lack of interest on supervisor's part	9	22.5	12	30	0.76ns
Lack of interest on subordinate's part	24	60	20	50	0.9ns
Lack of time on Supervisor's part	14	35	2	5	3.35***
Lack of time on subordinate's part	6	15	8	20	0.59ns

Results given in the Table 4 highlight that 60% of the respondents of the LIC and 50% of the respondents of HDFC are of the view that Lack of interest on subordinate's part is the major factor which affects goal setting in the organization. The z-value describe that there is no significant difference in the views of respondents of LIC and HDFC Insurance with regard to lack of interest on supervisor's and subordinate's and also lack of time on subordinate's part but their view's significantly differs on lack of time on supervisor's part at the level of 1%. In LIC 35% of the employees are attributing to this factor while in HDFC the percentage is very less i.e 5%. The reason may be shifting of top level managers who are most concerned with working of MBO and which is generally observed particularly in case of public sector under takings or as MBO and which is generally observed particularly in case of public sector under takings or as MBO involves two way communication process which necessities discussions, exchange of ideas between a superior and a subordinate, it takes a lot of time when compared with one way directives from superior to a subordinate. Many mangers particularly the senior ones often resent the time demands of goal setting. They would not like their time and energy to fritter away on this process which seems to yield results only in future.

CONCLUSION

It can be concluded that MBO is a dynamic process whereby the superiors and the subordinates of an organization jointly identify its goals, define each individual's major areas of responsibility in terms of results expected and use these measures to assess the contribution of its members in the development of organization. It motivates and enables the managers to grow and to develop hisown capabilities through a process of achievement of the company goals. It is usedas atool for strategic planning, employee motivation and performance enhancement. Superiors work should not be confined to provide objectives only but there should be healthy interactions with

subordinates. Superior's helping hand remains always extended to the subordinate in his achievements of his goals.

Bibliography

1. Drucker, Peter F. People and Performance, William Heinman Ltd. 1977, Chapter- MBO and self control, pp. 430-442.
2. Odiorne, S. George, MBO II: A system of Managerial Leadership for the 80s, Arnold Heinman Publications (India), 1983.
3. Guleck, Coleman F. In Micheal Beer and Robert A. Beck (ed.) The Personal Administration-Book of Readings, p.177.
4. Tossi, H.L. and Carroll, S.J. "Managerial Reactions to Management by Objectives" Academy of Management Journal, No.4 December 1968, pp. 415-426.
5. McGregor, Douglas, "An Uneasy look at performance Appraisal" ,Harvard Business Review, June, pp.87-94.
6. Drucker, Peter F. The Practice of Management. Reissue Edition. Collins, 26 May 1993.
7. Robert Rodgers and John E. Hunter, Impact of Management by Objectives on Organizational Productivity, Journal of Applied Psychology, Vol.76(2), April 1991, pp.322-336
8. Robert Rodgers and John E. Hunter, A Foundation of Good Management Practice in Government: Management by Objectives Public Administration Review Vol. 52, No. 1 (Jan. - Feb., 1992), pp. 27-39