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MANAGEMENT BY OBJECTIVES: MANAGEMENT PHILOSOPHY FOR PROSPEROUS TOURISM ORGANIZATIONS

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Abstract:

In the last fifty years since the term Management by Objectives (MBO) was introduced, numerous methods, models and theories surfaced.

The first segment of the paper addresses issues regarding the organizational objectives, more specifically the importance of the objectives as a basis upon which the organization is established, the possible approaches of leading a tourism organization, and how the organization should be managed by these approaches.

The principal characteristic of management is to direct the leading toward achieving the predetermined objectives. The second segment of the paper discusses the MBO process, its advantages and disadvantages. The practical implementation of the MBO is also elaborated.

Key words: tourism organization, objectives, management, MBO.

1. INTRODUCTION

Every organization, including the tourism organizations works on the basis of defined and appointed specified objectives. Organizational objectives are the reason for establishing a tourism organization and according to them, the organization is managed and the planning process is organized.

The founder of the tourism organization has pre-determined objectives and to be able to achieve these objectives; he/she establishes a tourism organization. The organizational objectives are clear: to produce positive economic results (the revenues to be higher than the expenses).

The founder invests capital and his/her aim is to achieve “good” profit. The term “good” indicates a profit margin, for example this can be between 10% and 15%. The organizational objectives specified as specific profit margin, in future can be supplemented with other components. It is not recommended that the organizational objectives for one tourism organization to be mono dimensional: to focus only on making profit and nothing else (!).

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The tourism organization as a social entity exists in its own broad environment. The organizational objectives can be directed towards:

- Business ethics
- Corporate responsibility
- Environment protection
- Employee's safety and health
- Shareholders' interests

The organizational objectives, from the beginning defined as a profit, but later on extended with additional elements, cannot be achieved if:

- The tourism organization does not operate
- The operating of the organization is not properly managed
- The tourism organization did not define paths which it needs to follow to be able to accomplish its objectives.

The organizational objectives without defined paths for its achievements can only be a list of wishes. For example, one tourism organization as an objective for the year 2011 can have increasing of its profit margin from 12% in 2010 to 15% in 2011. This is very clear as an objective. But, the organization needs to create a strategy to achieve this. For example:

- the number of clients will increase from 4000 to 5000
- the number of foreign tourism destinations will increase from 40 to 50
- the working expenses will reduce for 5%

If the tourism organization achieves these objectives, it will achieve the key objective: increasing the profit of the whole organization.

To be able to achieve all objectives including the key objective, the organization needs to be properly managed. The organizational objectives cannot be achieved by itself. The management needs to accomplish its management functions (planning, organizing, staffing, leading and controlling) and to be able to make decisions according to the organizational objectives. The planning process needs to be directed to achieve the key objective and everything has to be adapted to achieving the established organizational objectives. This is the core-concept of the Management by Objectives (MBO).

2. ORGANIZATIONAL OBJECTIVES

Organizational objectives need to be:

- achievable and realistic;
- concrete and measurable;
- time-determined;
- clearly defined;
- in written and available to all employees.

The organizational objectives need to be realistic in order to be achieved. Increasing the profit from 12 % to 15 % is a realistic objective. To increase the GDP for 3 % is also realistic objective. But, unrealistic objective will be to expect to increase the profit from 12 % to 82 %. If the organizational objectives are not realistic, they will not be achieved and this will decrease the motivation of the owner of the business, the management team, the shareholders and the other employees.

The organizational objectives need to be concrete and measurable. One tourism organization cannot have an objective in 2011 as follows: “Our aim is to work very hard and make effort to achieve good business results” (!?)

The mayor of Ljubljana, Zoran Jankovic in December 2010 has stated: “Ljubljana at the moment is at number 77, according to the scale “Mercer” which measures the quality of life in the cities. My aim is during my term Ljubljana to be within the first 10 in the world” (“Dnevnik”, 04.12.2010)

According to the president of “Toyota Motors”, *Katsuaki Watanabe*, the aim of the company for the next year is to produce 9,42 million vehicles. If they achieve this objective, it will be for the first time in the history to overtake the USA giant “General Motors” and become the biggest world automotive producer (“Politika”, 23.12.2006).

These are examples of concrete and measurable objectives.

The objectives need to be time-determined, too. If the tourism organization has an objective to increase the profit from 10000 EUR to 15000 EUR, this objective must be time-determined, also.

The organizational objectives for the tourism organization need to be clear and precisely defined. For example: The hotels of the company “X” have 25% market share. The objective is within the next five years this percentage to increase and after five years this chain of hotels to have 48 % market share. The clearness, preciseness and time dimension are the basis to see if the objectives are achieved – when the time for the achievement has concluded.

It is recommended the objectives to be available in written form and be accessible to all employees in the tourism organization.

There are some important notes regarding the organizational objectives for the tourism organization:

1. If the organizational objectives are not achieved, this can happen due to two reasons:
 - a) The objectives are not realistic and achievable, they are over optimistic.
 - b) The objectives are realistic, but the tourism organization was not well organized and managed, so it did not achieve the goals. Another reason can be if the operational and executive objectives are not well placed.
2. The objectives can be achieved if there are précised ways for its achievement.
3. If the objectives are not achieved, the responsibility needs to be addressed to the managers or other employees who are directly responsible for the tasks.
4. When tourism organization set its objectives, they must not forget about the employees. The objectives of every tourism organization must include the employee’s objectives.
5. The survival of the tourism organization is of course the first and foremost, but not the only objective. It is certain that the tourism organization firstly needs to survive and then to establish new objectives. The objective for survival is a basic objective; it is understandable for everyone and does not need to be expressed. It is not going to be good if all objectives refer to this objective. This is a basis for establishing all other objectives.

3. MANAGEMENT BY OBJECTIVES (MBO)

“For someone to be a manager, he/she needs to be able to take responsibility. Manager’s duties include the objectives of the company and not his/her individual needs and therefore the manager needs to be committed to the organizational objectives. The manager needs to understand the company objectives, what is expected from him/her and how his/her performance will be measured. The views and the attitudes of all the managers within a company need to be compatible.” (Drucker, 1961, 150).

Until now, MBO by Drucker is still in the main focus for many researchers in the field of management.

The management can be defined as:

- Setting up objectives,
- Creating “paths” for achieving the objectives,
- Managing the organization through these paths to achieve its objectives.

The Management by Objectives is a management “philosophy” which is used by Peter Drucker who states that the management based on set up objectives and self control can be understood as a philosophy of management (Drucker, 1961, 158).

The objectives of the MBO need to be SMART (Specific, Measurable, Achievable, Relevant, Time-determined). In some areas SMART can be extended to SMARTER, where E – means exciting and R – recorded.

Typical MBO program has the following phases:

1. Formulation of the company objectives and the organizational strategy.
2. The company objectives are given to all the departments.
3. The departments’ management determines its specific objectives.
4. Each department’s objectives are concluded in a co-operation with the employees.
5. The planning process for defining the ways of how to achieve the goals is done by the management team together with the employees.
6. There is a plan process for the tasks.
7. The progress towards achieving the objectives is observed periodically.
8. The success of achieving the objectives has a positive impact to the reward for the employees (Robbins and Coulter, 2005, 165).

Instead of traditional way of choosing the objectives, many organizations have started to use MBO. This is a system where the management team together with its employees decides what the specific objectives in each department are. In doing this, each department is led by the overall, company objectives. The process of achievement is periodically controlled and along follows appropriate motivation and reward system.

As any other method, MBO has its advantages and disadvantages. However, there is an evidence of positive effects. Out of 70 MBO programs, the productivity has increased in 68 cases (Robbins and Coulter, 2005, 165).

It is very important in the process of selecting the organizational objectives not to end up in a situation where some objectives are contradictable one to another.

Experienced managers who applied MBO believe there are two advantages of this process:

First, the program MBO continually emphasizes what needs to be done in the organization in order to achieve the objectives.

Second, the MBO program provides guarantee for the employee loyalty for achievement of the organizational objectives. Both, the managers and other employees are concentrated on achieving the organizational objectives because they were the ones who set the objectives.

But, the MBO in spite of having many advantages also has disadvantages. First, the progress of the organizational objectives takes long time and this reduces the effective working time for the managers and other employees. Second, writing about the objectives, giving a statement about organizational objectives and detailed evaluation about the achievement of the organizational objectives increases the paperwork (Certo and Certo 2008, 145 – 146).

Every manager – starting from the CEO, till the first-line managers, need to have clearly defined tasks (sub-objectives-T.K). These sub-objectives should show what results (goals) can be expected from the respective working group. All the sub-objectives ought to clarify the contribution from the working group in order to help other groups to achieve their objectives (Drucker, 1961, 147).

CONCLUSION

MBO is a management philosophy. Before the organisation is established, the organisational objectives are usually in only one direction, mainly focusing on the profit side of the bussiness. When the tourism organisation starts its operations, the organizational objectives become multidimensional and apart from the profit, there are also other parameters included (for example: with relation to the business ethics and the social responsibility).

The tourism organization, same as any other organization, needs to set up a long term, middle term and short term objectives. Those objectives need to be realistic, concrete and time-defined. On the basis of the key objective, the tourism organization can apoint its other objectives for different organization units (departments, branches, representative offices etc).

If some of the objectives are not achieved, the organization needs to find the reason. The system for reward needs to be adapted to the MBO.

The employees' involvement and their co-operation with the management team for defining the objectives is one of the characteristics of the MBO. This is in a correlation with elements of participative management which includes the employees in the process of making business decisions.

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