

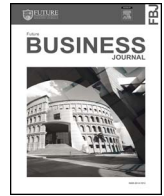
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## Using Management by Objectives as a performance appraisal tool for employee satisfaction



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### ABSTRACT

This study deals with the importance of applying Management by Objectives (MBO) method, as a method for performance appraisal (PA) in enhancing employees' effectiveness. A self-administered questionnaire was used, the number of participants included in the survey is 172 employees from 13 firms operating in Kosovo. The study aim is to identify the importance of creating objectives, communication objectives, planning goals, setting control points, employees' commitment to determine objectives, freedom and independence in fulfilling duties, continuous communication, as steps for realizing MBO method in employees' effectiveness. The questionnaire of the study has been prepared, the responses obtained, the econometric model is constructed in order to test empirically this relationship, passed through the IBM SPSS v.23.0 program has been utilized for the obtained findings. Results and proposals are brought forward by the matched t-test, independent sample t-test, anova, pearson and correlation used as the hypothesis tests. Econometric results suggested that MBO method should be used as a method of performance appraisal as the employees' effectiveness is enhanced. Also it resulted that the evaluation of individual employees' performance and a clear definition of results are the highest parameters from all the other activities of MBO method which we took in the study to raise employees' effectiveness in organization.

### Introduction

Wanting people to perform in high level, high standards of performance should be set. The employees must know precisely why they figure in the payment list, what is expected from them and what makes a high performance. All organizations, in nowadays, are faced with a competing, unstable and turbulent environment, therefore managers focus is in creating competing advantage through employees' development of organization. Performance appraisal of employees is one of the most efficient methods for employees' development, motivation and evaluation, in modern time. Performance appraisal system is used in the organizations to measure the effectiveness and efficiency of their employees.

It tends to improve the work performance, communication expectations, determining employees' potential and aiding employee counseling (Aggarwal & Thakur, 2013). For performance appraisal different definitions have been given: "Performance appraisal" is a process within the overall performance management process (Dowling, Welch & Schuler, 1999), it can be defined as the formal assessment and rating of individuals by their managers (Armstrong, 2012), and is defined as "the evaluation of an individual's work performance in order to achieve at objective personnel decisions" (Robbins, Bergman, Stagg & Coulter, 2000). Generally,

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performance appraisal aims to recognize current skills' status of their work force (Shaout & Yousif, 2014).

In order to evaluate employees' performance appraisal various techniques exist, for more details see authors (Armentrout, 1986; Stronge, 1991; Sanchez & De La Torre, 1996; DeCenzo & Robbins, 1988; Arvey & Murphy, 1998; Jiang, Sobol & Klein, 2001; Hronik, 2006; Chang & Hahn, 2006; Deb, 2006; Randhawa, 2007; Jafari, Bourouni & Amiri, 2009; Khurana, Khurana & Sharma, 2010; Dvořáková, 2012; Aggarwal & Thakur, 2013; Kutllovci, 2014; Dagar, 2014).

Most of the above mentioned authors divide the appraisal methods of performance into: traditional method and modern method for performance appraisal. In creating and implementing an appraisal system, management must determine which system of performance appraisal will be used and then decide on the process of implementing the system. The methods chosen and the instruments used to implement these methods are crucial in determining whether the organization manages its performance successfully (Ahmed, Sultana, Paul & Azeem, 2013).

The authors that studied the techniques of performance appraisal classified the MBO method as a modern method or a method oriented toward the future. A lot of studies that compared successful methods of performance appraisal considered that MBO technique is the most effective. In their research Jafari et al. (2009) and Shaout and Yousif (2014) claimed that MBO is the most successful method that enables employees to successfully complete their work. Starting from these statements of literature seeing the importance of MBO method in employees' development, we will analyze specifically MBO technique as an employees' performance appraisal method.

The rest of this paper is organized as follows: Section II deals with literature review for management method according to objectives, there can be seen the advantages and disadvantages of this method for performance appraisal and the process is being analyzed (steps) to realize MBO method. In section III the hypotheses of this study are presented. Whereas, section IV covers the methodology used for literature review and testing hypotheses. Next, in section V the model that has been used in the study is presented. Further on, sections VI and VII deal with testing hypotheses and discussing results. Section VIII is about the authors' conclusion for the current study.

## Literature review

Managing objectives as a modern method to evaluate individual and organized performance is evaluated by a lot of researchers. For the first time "Management by Objectives" is created and named by Drucker (1954) as a contemporary management creator in his book "The Practice of Management". Since that time continuously studies, researches and analysis have been made for the MBO method. MBO method in structural aspect is analyzed by authors (McConkie, 1979; Busch, 1998; Rodgers & Hunter, 1991), in controlling system aspect and organizing methods (Williams & Hinings 1988), in the viewing point of productivity growth from managerial aspect (Friesen, 1987), in all including concept of MBO method (Seyna, 1986) introduced that applying this method brings different benefits for organization. The results-oriented MBO principles adopt the performance standards, in association with costs and manpower, value assessment, feedback, and improvement as claimed by Alberts (1982).

Before starting literature review some definitions should be given for MBO, in order for the readers to understand clearly their concept. Management by Objectives is a tool or instrument to do purpose integration (earning, growing, and development) with individual needs of manager (incomes, payment, improvement and the like) (Ramosaj, 2007), is a process that converts organizational objectives in to individual objectives (Jafari et al., 2009). Moreover, in MBO the attention is on contributions individuals make to the broader organizational aims (Wehrich, 2000).

Performance management is a planned process of which the five primary elements are agreement, measurement, feedback, positive reinforcement and dialogue. It is concerned with measuring outcomes in the shape of delivered performance compared with expectations expressed as objectives (management by objectives) (Armstrong, 2009).

Whereas, we, the authors of this research express our view points for this matter, MBO is defined as "parameters of strategically planning which means that harmonizing manager' aims with the employees in order to reach the objectives introduced by organization". It is a process that motivates employees to realize organizing objectives. Also, it enables to enhance performance, productivity, and manager results through its employees. According, Stewart (1993) general results of MBO is that the purposes of enterprise as an organizing form is reached from common people and through this method, effects often are realized on pre-arranged standards.

Despite definition and importance of MBO technique as a general concept of employees' performance appraisal, shortly it is mirrored even the importance of components of MBO technique evaluated by various authors, whereas a detailed analysis for each component of this technique is presented below, respectively in "Process of MBO".

The positive relationship between setting objective and task satisfaction is one of the most replicable findings in management and organization literature (Locke, Shaw, Saari, & Latham, 1981). According, Steers and Porter (1974) the use of goal-setting techniques in a natural work environment should have a significant impact on employee performance and satisfaction. Goal theory as developed by Latham and Locke (1979) states that motivation and performance are higher when individuals are set specific goals, when goals are difficult but accepted, and when there is feedback on performance. Participation in goal setting is important as a means of getting agreement to the setting of higher goals. Difficult goals must be agreed and their achievement reinforced by guidance and advice. Finally, feedback is vital in maintaining motivation, particularly towards the achievement of even higher goals. Goal theory, as developed by Latham and Locke (1979), highlights four mechanisms that connect goals to performance outcomes: 1) they direct attention to priorities; 2) they stimulate effort; 3) they challenge people to bring their knowledge and skills to bear to increase their chances of success; and 4) the more challenging the goal, the more people will draw on their full repertoire of skills (Armstrong & Taylor, 2014). This theory underpins the emphasis in performance management on setting and agreeing objectives against which

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