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Accounting

1a. 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. It can also be defined as a comprehensive managerial system that integrates many key processes and that is consciously directed toward the effective and efficient achievement of organizational and individual objectives. The term was first outlined by

management guru Peter Drucker in 1954 in his book "The Practice of Management."

1b. Processes of MBO

-Define Organizational Goals

Goals are critical issues to organizational effectiveness, and they serve a number of purposes. Organizations can also have several different kinds of goals, all of which must be appropriately managed. And a number of different kinds of managers must be involved in setting goals. The goals set by the superior are preliminary based on an analysis and judgment as to what can and what should be accomplished by the

organization within a certain period.

-Define Employees

Objectives

After making sure that employees' managers have informed of pertinent general objectives, strategies and planning premises, the manager can then proceed to work with employees in setting their objectives.

The manager asks what goals the employees believe they can accomplish in what time period, and with what resources. They will then discuss some preliminary thoughts about what goals seem feasible for the company or department.

-Continuous Monitoring Performance and

Progress

MBO process is not only essential for making line managers in business organizations more effective but also equally important for monitoring the performance and progress of employees.

For monitoring performance and progress the followings are required;

- Identifying ineffective programs by comparing performance with pre-established objectives,
- Using zero-based budgeting,
- Applying MBO concepts for measuring

individual and plans,

- Preparing long and short range objectives and plans,
- Installing effective controls and
- Designing sound organizational structure with clear, responsibilities and decision-making authority at the appropriate level

-Performance Evaluation

Under this MBO process performance review are made by the participation of the concerned managers.

-Providing Feedback

The filial ingredients in an MBO program are continuous feedback on

performance and goals that allow individuals to monitor and correct their own actions.

This continuous feedback is supplemented by periodic formal appraisal meetings which superiors and subordinates can review progress toward goals, which lead to further feedback.

-Performance Appraisal

Performance appraisal are a regular review of employee performance within organizations. It is done at the last stage of MBO process.

1c. Usefulness of MBO to an organization

-Improved Planning:

MBO involves participative decision-making which

makes objectives explicit and plans more realistic. It focuses attention on goals in key result areas. MBO forces managers to think in terms of results rather than activities. It encourages people to set specific pleasurable goals instead of depending on hunches or guesswork. An integrated hierarchy of objectives is created throughout the organization. Precise performance objectives and measures indicating goal accomplishment are laid down. There is a time bound programme.

-Coordination:

MBO helps to clarify the structure and goals of the organization. Harmony of objectives enables

individuals at various levels to have a common direction. Every individual knows clearly his role in the organization, his area of operation and the results expected of him. Interlinking of corporate, unit and individual objectives helps in the decentralization of authority and fixation of responsibility. MBO result in clarification of organizational roles and structure. It promotes and integrated view of management and helps interdepartmental co-ordination.

-Motivation and Commitment:

Participation of subordinates in goal setting and performance reviews

tend to improve their commitment to performance. The corporate goals are converted into personal goals at all levels to integrate the individual with the organization. Timely feedback on performance creates a feeling of accomplishment. Job enrichment and sense of achievement help to improve job satisfaction and morale. Improved communication and sense of involvement provides psychological satisfaction and stimulates them for hard work. Conversion of organizational goals into personal goals helps to integrate the individual with the organization. MBO ensures performance by

converting objective needs into personal goals and by providing freedom to subordinates.

-Accurate Appraisals:

MBO replaces trait based appraisal by performance based appraisal.

Quantitative targets for every individual enable him to evaluate his own performance. Performance under MBO is innovative and future oriented. It is positive, more objective and participative. Emphasis is on job requirements rather than on personality. MBO is not a scapegoat approach rather it involves constructive criticism to assess why operations have failed or lagged behind and suggests remedial actions like

organizational restructuring, better communication systems, more effective incentives to motivate executives, etc. MBO provides an objective criterion for evaluation of actual performance. "Indeed one of the major contributions of MBO is that it enables us to substitute management by self-control, for management by domination." Control becomes more effective due to verifiable standards of performance. Subordinates know in advance how they will be evaluated.

-Executive Development:

The MBO strategy is a kind of self-discipline whereby shortcomings and development needs are

easily identified. It stresses upon a long term perspective and self-development. MBO releases potential by providing opportunities for learning, innovation and creativity. It encourages initiative and growth by stretching capabilities of executives. MBO makes possible a high degree of self-control by individual managers and increases decentralization of authority.

-Organizational change and Development:

MBO provides a frame work for planned changes. It enables managers to initiate and manage change. It helps to identify shortcomings in organizational structure and processes. In

this way, MBO improves the capacity of the organization to cope with its changing environment. When an organization is managed by objectives, it becomes performance-oriented and socially-useful.

Originally MBO was developed for business organizations but now it is being used by social welfare organizations also. But MBO might not be very successful in welfare organizations because of the abstract nature of the values to be measured in specific and quantified terms, general unwillingness on the part of personnel to subject their efforts to precise evaluations and lack of measuring instruments

which could generate valid and reliable data. MBO has special significance in the areas of long range planning and performance appraisal.

2a. Decision is used to rationalize a seemingly irrational choice in the face of obvious or logical alternatives. Often, there appears to be no logic whatsoever in a "Business Decision" which is coincidentally very often the case. The term decision in business is frequently used by executives and managers at corporations.

2b. Rational decision making process

Define the Problem

Violet first needs to define the problem. This step is relatively easy for Violet, as

upper management has already identified the issue. Her store profits have not increased month to month, so she needs to find the best solution to increase profits. The next step facing Violet is to determine what criteria she will use to make her decision.

Identify the Decision Criteria

The next step in the rational decision-making process is to identify the decision criteria. This step deals with choosing variables that will determine the decision outcome. In Violet's case, she needs to determine the criteria or information that is relevant and will help her increase her profits. The criteria are usually

dependent upon the individual's values and beliefs. Violet will make her decision based on her belief that she should not eliminate any employees to save money. She will only cut costs in other ways, such as finding cheaper vendors, shortening store hours, changing menu options, etc. Her criteria will be:

- How will employees be affected?
- How will changes affect customers?
- How will changes affect quality?

Allocate Weights to Criteria

Violet's next step is to allocate weights to the criteria. This means ranking

which criteria is the most important to the decision-making process. Violet feels that the biggest weight should be given to how the change will affect employees. The other weights are then distributed equally. The next step starts to consider solutions.

Develop the Alternatives

The next step is to develop alternatives, which is where the potential solutions need to be considered. There will not be any consideration in this step, just a generated list of alternatives.

Evaluating the Alternatives

After having developed the appropriate alternatives, the next step is evaluating them

so as to choose the best one. While comparing the alternatives, various factors that are given here under are to be considered.

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Deciding the Best Course of Action

After the evaluation of various alternatives, the next step is deciding the best alternative. The manager should take into account the economy, risk factors, the limitation of resources, feasibility of its implementations, etc., at the

time of deciding the best course of action. Koontz and O'Donnell have suggested three bases for deciding the best one from the alternatives viz.,

1. Past Experience,
2. Experimentation, and
3. Research and Analysis.

Conversion of Decision into Action

If the decision taken remain in the paper, there is no meaning in taking decisions. Once a decision is made, it should be converted into action i.e, implemented. Implementation involves the following steps.

1. Communicating the decision to all the employees concerned.
2. Assigning the responsibility of

carrying out the decision to certain employees.

3. Developing the procedure for the purpose of executing the decision.
4. Developing feed back mechanisms to check on the progress of the implementation.

Control

Once the decision is implemented, the next step is controlling. The term controlling involves the following steps:

1. Comparing the actuals with the expected results.
2. Finding out the deviation.