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Business Administration

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**Question**

1a. What is Management by Objective (MBO)?

1b. Describe the MBO Process

1c. What is the Usefulness of MBO to a business Organisation?

2a. Define Decision

2b. Describe the Rational Decision-Making Process in Business

**Answers**

1a. What is Management by Objective (MBO)?

**Definition**

**Management by Objectives** (**MBO**) is a personnel management technique where managers and employees work together to set, record and monitor goals for a specific period of time. Organizational goals and planning flow top-down through the organization and are translated into personal goals for organizational members. The technique was first championed by management expert Peter Drucker and became commonly used in the 1960s.

MBO is a supervised and managed activity so that all of the individual goals can be coordinated to work towards the overall organizational goal. You can think of an individual personal goal as one piece of a puzzle that must fit together with all of the other pieces to form the complete puzzle: the organizational goal. Goals are set down in writing annually and are continually monitored by managers to check progress. Rewards are based upon goal achievement.

1b. Describe the MBO Process.

## ****Process of Management by Objectives****

With the aim to achieve greater efficiency and performance, employee’s motivation is really important to have and Management by Objectives (MBO) is a best approach to do so. This approach was proposed by [Peter Ducker](https://en.wikipedia.org/wiki/Peter_Drucker) in the 1960’s, and by definition, process of management by objectives show a personnel management system, where the organization set, plan, monitor and achieve specific objectives with the mutual cooperation of both high level and low-level employees. For business passionate individuals, the concept of MBO may be clear, yet there is a need to understand the process of management by objectives.

## ****Management By Objectives Process****

The process of MBO involves six key steps that incorporate managerial activities in such a systematic way, which is directly influenced towards efficient and effective achievement individuals and organizational objectives. In case someone wants to analyze the practical importance of **Management by Objectives**, then it is good to summarize all the objectives of the organization together with individual goals. The six steps involved in the process of MBO are determining organizational goals, determining employees’ objectives, constantly monitoring progress and performance, performance evaluation, providing feedback and performance appraisal. Moreover, all these steps are briefly defined as follows.

1. **Determining Organizational Goals**

The entire development of an organization depends on the set goals. A goal is the most critical and necessary factor behind the effectiveness and efficiency of an organization, so it is important to effectively manage set goals either single or many of different kinds. Prior to start working on the set goals, the managers should determine organizational goals with the aim to create a potential management that must be capable of handling different kinds of goals easily. Determining goals don’t mean creating goals, as the preliminary goals are set by the top level supervisors on the basis of in-depth analysis and judgment about what should be accomplished and how to do so in a certain period.

2. **Determining Employees’ Objectives**

After determining the organizational goals, the next thing to do is to know the individual’s goals or more clearly employees’ goals. It is the responsibility of the manager to ask employees about what goals they can accomplish within a specific time period and what resources will they use to achieve the goal. Also, if needed, then managers and employees can classify the goals from the most important to the least one in order to make the goal achieving process more easily and in favor of the organization.

3. **Constant Monitoring Progress and Performance**

The process of MBO is not just set for providing additional effectiveness to managers across the organization, but it is also equally important for constantly monitoring the progress and performance of the employees. There are certain things stated below that can help managers to monitor performance and progress.

* Checking less-effective or ineffective programs by performing a comparison of performance with already prepared objectives.
* Using ZBB (Zero Based Budgeting)
* For measuring plans and individuals, implementing MBO concepts
* Defining short and long term plans and objectives
* Installing efficient and effective controls
* Eventually, composing completely sound structure of the organization with all things at appropriate places such as responsibilities, decision making and so on.

4. **Performance Evaluation**

As per the basic concept of MBO, the performance evaluation comes under the responsibility of concerned managers and is made by their participation. Keep in the mind, performance evaluation is one the most important factors of the organization that can help operating certain objectives smoothly.

5. **Providing Feedback**

The psychologically influential factor of MBO is constantly providing feedback to employees regarding their performance and individual goals, so that they can monitor, correct and extra improve their skills and mistakes. Mostly, the feedback is provided in periodic meetings where supervisors and their subordinates review the performance and progress towards achievement of goals. At one point, feedback helps individuals know their weakness. While on the other hand, it also motivates already potential individuals to enhance and develop their performance additionally.

6. **The Performance Appraisal**

Performance appraisals are the final step of the process of Management by Objectives. By definition, a day by day review of the employee’s performance across the organization can be called as performance appraisal**.** performance appraisal is associated with the term performance evaluation, but in some cases, both differ from each other.

1c. What is the Usefulness of MBO to a business Organisation?

* Planning is an essential part of management – it is not taken offhandedly, but after a careful and extensive study as well as based on required experience. Planning enables the organization to design the activities in such a manner that the goals and objectives can be attained effectively while providing the sense of involvement and team spirit among the employees. This way, employees are supposed to contribute their part in a positive manner. Thus, MBO, being extremely result oriented, involves making realistic plans and participative decision making which enables to attain the goals and objectives in a way as intended and planned.
* Formulating clearer goals is a great way to lead the employees at all levels of organization to have a common direction. MBO, aiming at effective utilization of human resource seeks to achieve the coordinated structure of activities by integrating the individuals with the organization provides harmony of objectives by making every employee more effective that in turn leads to attain the predefined objectives effectively and efficiently.
* The process of MBO leads to greater motivation and commitment. Since it creates the sense that each and every employee is working for a common goal, it instills motivation and commitment in the attainment of objectives in a way as wanted.
* It is worth mentioning that the process of MBO enhances the morale of the employees as opposed to the supposition that MBO, being also known as MBR- management by results is just result oriented and that it needs employees to focus their attention on goals without specifying the behavior. As a matter of fact, the process of MBO can boost the employee morale greatly. Since the employees play an important role in setting the goals, this makes sense as to how they can perform better by finding their goals clearer. It also leads them to be more efficient and effective thereby increasing their morale.

2a. Define Decision

**Layman’s definition of decision making**

A choice made between alternative courses of action in a situation of uncertainty.

**In the business world, decision can be defined as**

The thought process of selecting a logical choice from the available options.  
When trying to make a good decision, a person must weigh the positives and negatives of each option, and consider all the alternatives. For effective decision making, a person must be able to forecast the outcome of each option as well, and based on all these items, determine which option is the best for that particular situation.

2b. Describe the Rational Decision-Making Process in Business

The rational decision making process is a cognitive process which is made up of a logical step by step process. In this process the emphasis is on thinking things through and also on weighing the outcomes and alternatives before arriving at a final decision.

In general there are 5 broad steps in rational decision making process, through different models follow different methodology

* Identify the situation and the decision that is needed to be made.
* All the important criteria must be discussed and identified.
* All possible situations must be carefully considered.
* All possible situations must be considered along with their outcomes to see which best fits the bill.
* The best option is then chosen.

The presumption in the rational decision making process is that there is only ONE BEST solution to every problem and it focuses on trying to find that solution. Sometimes we just need a solution that works versus the best solution at that moment. This model is also based on prediction of outcomes based on different solutions; however our ability to predict the future is often limited and hence skewed.

This process also requires a great deal of time and thought along with information, it also negates the emotional aspect of decision making.

There is also an eight step decision making process which has been outlined below:

Step 1: Identification of the Problem

Step 2: Identification of decision criteria

Step 3: Allocation of weights to criteria

Step 4: Development of Alternatives

Step 5: Analysis of Alternatives

Step 6: Selection of Alternatives

Step 7: Implementation of the lternatives

Step 8: Evaluation of the Decision Effectiveness

The rational decision making process is highly effective when used in team decision making and also when making decisions regarding important business outcomes. When dealing with any situation where the decision will affect the companies’ future or financials or employee and customer satisfaction, it is best to follow the rational decision making process.

In order to facilitate the rational decision making model there are many forms and templates available both on and offline to help your team make a decision effectively such as Decision matrix, Pugh matrix, decision grid, Selection matrix, and criterion rating form along with many others, nominal group technique, fishbone diagram etc.

When selection a model and a form it is best to select on that appeals to your style and level of comfort with this leadership tool.