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**COURSE TITLE: INTRODUCTION TO BUSINESS**

**QUESTIONS**

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.) **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.

**1b.)**

1. . Define organizational goals
2. Define employees objectives
3. Continuous monitoring performance and progress
4. Performance evaluation
5. Providing feedback
6. Performance appraisal

Let’s briefly look at each of these;

1. **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 superiors are preliminary**](http://iedunote.com/kinds-of-organizational-goals), based on an analysis and judgment as to what can and what should be accomplished by the organization within a certain period.

1. **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.

Also, Read [**Four Common Ingredients that makes up an MBO Program**](http://iedunote.com/management-by-objectives-ingredients).

1. **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**](http://iedunote.com/zero-base-budgeting),
		- Applying MBO concepts for measuring individual and plans,
		- Preparing long and short range objectives and plans,
		- Installing [**effective controls**](http://iedunote.com/desiging-effective-control-system), and
		- Designing sound organizational structure with clear, responsibilities and decision-making authority at the appropriate level.
1. **Performance Evaluation**

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

1. **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.

1. **Performance Appraisal**

[**Performance appraisals**](http://iedunote.com/how-performance-appraisal-work) are a regular review of employee performance within organizations. It is done at the last stage of MBO process.

2a). **Management by Objectives develops a result-oriented philosophy**: The Management by Objectives (MBO) process is all about the delivery of results (outcome) as opposed to management by crisis (MBC)). While managers are expected to develop [goals and objectives](http://objectiveli.com/); action plans and provide their people with the resources they need, employees are expected to do their part by making positive contributions towards the organizational goals.

**Formulation of clearer goals**: In many organizations, goals are only set once a year. The goals that are set in the MBO process are done in a way that makes them measurable and verifiable, whilst making sure that each and every one can be attained. The idea is that problem areas are highlighted, with goals put in place to iron out those issues, thus making everyone more effective in the job that they do. This process encourages the active participation of every employee, with the end result being that the organizational goals are met within the agreed timeframe.

**Management by Objectives Facilitates objective appraisal**: The evaluation process is designed to be fair from the start, with all of the goals are put together in by the entire team. Giving individuals the freedom to exercise their own creativity makes for a happier set of employees, all of whom become fully committed to reaching the organizational goals.

**Raises employee morale**: Too many employees feel as though they are left out of the decision process, but this is not the case with Management by Objectives. Since they play a part in setting goals, the bigger picture becomes far clearer to everyone. This in turn leads to a companywide boost in morale.

[**Management by Objectives**](http://objectiveli.com/blog/corporate-america-management-by-objectives/)**Facilitates effective planning**: The Management by Objectives program makes organizational planning much more effective. Everyone is forced to look at results as opposed to winging it when crises arise. When effective planning is put in place, fewer of those problems tend to arise, allowing mangers to focus on what is important.

**Acts as motivational force**: Since everyone is on the same page when it comes to reaching the goals of the organization, there is a higher level of imagination and creativity that comes with that. With everyone working together for a common goal, there is a much higher level of motivation to reach them.

**Management by Objectives facilitates effective control**: One of the main features of MBO is the continual monitoring of progress. This allows everyone to measure their performance against the standards that have been put in place. It is those clear standards that allow everyone to work towards a very identifiable set of goals, all allowing for better control.

**Management by Objectives facilitates personal leadership**: MBO helps everyone within the organization, but it gives mangers in particular the opportunity to display their leadership skills. Keeping the entire group focused will paint a manager in a very positive light and make them more likely to advance within the company.

2a.) In psychology, decision-making is regarded as the cognitive process resulting in the selection of a belief or a course of action among several alternative possibilities. It is the thought [process](http://www.businessdictionary.com/definition/process.html) of selecting a logical [choice](http://www.businessdictionary.com/definition/choice.html) from the available options.

When trying to make a good [decision](http://www.businessdictionary.com/definition/decision.html), a [person](http://www.businessdictionary.com/definition/person.html) must [weight](http://www.businessdictionary.com/definition/weight.html) the positives and negatives of each [option](http://www.businessdictionary.com/definition/option.html), and consider all the alternatives. For [effective](http://www.businessdictionary.com/definition/effective.html) decision making, a person must be [able](http://www.businessdictionary.com/definition/able.html) to [forecast](http://www.businessdictionary.com/definition/forecast.html) the outcome of each option as well, and based on all these items, determine which option is the best for that particular situation.

2b.) Decision-making involves the following phases:

1. **Identifying the Problem**: The first step in the decision-making process is to identify the actual cause of a problem. It involves defining and formulating the problem clearly and completely. In practice, defining the problem is not an easy task. What seems to be a problem may actually be the symptoms of it. So the manager should dig further to identify the real problem.

Defining the problem involves identifying the critical factors so that such factors can be restricted by the manager and finding out whether there are any limiting factors to solve the problem. For this purpose, manager should refer to the objectives, rules, policies, etc., of business.

2. **Analysing the Problem**: After the problem is defined, the next step in the process of decision-making is, analysing the problem. it involves the collection and classification of as many facts as possible. The assembled information should be classified on the basis of futurity of the decision and the impact of the decision. Collection of relevant and accurate data is essential because the quality of decision will depend upon the quality of data used.

3. **Developing Alternative Solution for the Problem**: Majority course of action will have alternatives. A course of action does not become the best merely because it has been in use for a long time. Hence, the sound decision necessitates the consideration of all alternatives. This step involves the identification of limiting factors because it will enable the manager to search for those alternatives which will overcome the limiting factors.

4. **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.

1. Quantitative Factors – factors which can be measured e.g., fixed and operation costs.
2. Qualitative Factors or intangible Factors — factors which cannot be measured i.e., unmeasurable factors, e.g., labour relations, change in technology. While evaluating the qualitative factors, the planner should see whether these factors can be quantitatively measured. If they are found not to be quantitatively measurable, then he should assess the importance and influence and then come to a conclusion.

5. **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.

6. **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 feedback mechanisms to check on the progress of the implementation.

7. **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.