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**16/SMS02/039**

**ACCOUNTING**

**BUS 206 [INTRODUCTION TO BUSINESS].**

1. **What is 'Management by Objectives - MBO'**

**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. MBO is a management practice which aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization.**

1. **DESCRIBE THE MBO PROCESS.**

**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.**

**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.**

**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.**

**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.**

**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.**

**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**](http://www.businessstudynotes.com/hrm/performance-appraisal-process-of-performance-appraisal/)**is associated with the term performance evaluation, but in some cases, both differ from each other.**

1. **Objectives Advantages of Management by**

**a. Since Management by objectives (MBO) is a result-oriented process and focuses on setting and controlling goals, it encourages managers to do detailed planning.**

**b. Both the manager and the subordinates know what is expected of them and hence there is no role ambiguity or confusion.**

**c. The managers are required to establish measurable targets and standards of performance and priorities for these targets. In addition, the responsibilities and authority of the personnel is clearly established.**

**d. It makes individuals more aware of the company goals. Most often the subordinates are concerned with their own objectives and the environment surrounding them. But with MBO, the subordinates feel proud of being involved in the organizational goals. This improves their morale and commitment.**

**e. It improves**[**communication**](https://www.managementstudyhq.com/types-of-communication.html)**between management and subordinates.**

**2. DEFINE DECISION;**

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

 2B. RATIONAL DECISION MAKING PROCESS IN BUSINESS.**

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.