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Management by objectives (MBO), also known as management by results (MBR), was first popularized by Peter Drucker in his 1954 book The Practice of Management.[1] Management by objectives is the process of defining specific objectives within an organization that management can convey to organization members, then deciding on how to achieve each objective in sequence. This process allows managers to take work that needs to be done one step at a time to allow for a calm, yet productive work environment. This process also helps organization members to see their accomplishments as they achieve each objective, which reinforces a positive work environment and a sense of achievement.[2] An important part of MBO is the measurement and comparison of an employee's actual performance with the standards set. Ideally, when employees themselves have been involved with the goal-setting and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities.[3] According to George S. Odiorne[citation needed], the system of management by objectives can be described as a process whereby the superior and subordinate jointly identify common goals, define each individual's major areas of responsibility in terms of the results expected of him or her, and use these measures as guides for operating the unit and assessing the contribution of each of its members.

History

Stages of MBO (Management by Objectives) Process

MBO or management by objectives is defined as a comprehensive managerial system that integrates many key managerial activities in a systematic process and that is consciously directed toward the effective and efficient achievement of organizational and individual objectives.

The practical importance of objectives in management can best be seen by summarizing how successful managing by objectives works in practice.

The six steps of MBO process are shown below graphically;

6 Stages of MBO (Management by Objectives) Process

Define organizational goals

Define employees objectives

Continuous monitoring performance and progress

Performance evaluation

Providing feedback

Performance appraisal

Let’s briefly look at each of these;

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, 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

six steps of MBO process

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.

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

6 benefits of Management by Objectives (MBO) for the overall growth of the business

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Importance of mbo to business organizations

The main benefits of MBO are as follows:

1) 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.

2) 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.

3) 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.

4. 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.

5. 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.

6. Organizational change and Development:

MBO provides a frame­ work for planned changes. It enables managers to initiate and manage change. It helps to identify short-comings 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.

DECISION

A choice made between alternative courses of aPhases in decision making process or Rational decision making

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. Analyzing the Problem: After the problem is defined, the next step in the process of decision-making is, analyzing 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.

Quantitative Factors – factors which can be measured e.g., fixed and operation costs.

Qualitative Factors or intangible Factors — factors which cannot be measured i.e., unmeasurable factors, e.g., labor 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.,

Past Experience,

Experimentation, and

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.

Communicating the decision to all the employees concerned.

Assigning the responsibility of carrying out the decision to certain employees.

Developing the procedure for the purpose of executing the decision.

Developing feed back 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:

Comparing the actuals with the expected results.

Finding out the deviation.

Action in a situation of uncertainty.