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ACCOUNTING

BUS206.

**1.a.What is management by objective (MBO)?**

Management by objective is defined  as a comprehensive managerial system that integrates many key managerial activities in a systematic process 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.

**1.b.Describe the MBO process.**

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

### 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.

### 2.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.

### 3.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.

### 4.Performance Evaluation

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

5.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.

### 6.Performance Appraisal

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

**1.c.Usefulness of MBO to an organisation.**

#### 1.Better managing:

MBO results in improved and better managing. Better managing requires setting goals for each and every activity and individual and ensuring that these are achieved. MBO not only helps in setting objectives but also ensures balancing of objectives and resources. For establishing objectives there is a need for better and result oriented planning. Management by objectives forces managers to think about planning for results, rather than merely planning activities or work. Managers will devise ways and means for achieving objectives. The objectives also act as controls and performance standards. So MBO is helpful in improving management.

#### 2.Clarifying organisation:

MBO helps in clarifying organisational roles and structures. Responsibility and authority are assigned as per the requirements of the tasks assigned. There is no use of fixing objectives without delegating requisite authority. The positions should be built around the key results expected of people occupying them. Implementation of MBO will help in spotting the deficiencies in the organisation.

#### 3.Encouraging personal commitment:

The main benefit of MBO is that it encourages personnel to commit themselves for the achievement of specified objectives. In a normal course people are just doing the work assigned to them. They follow the instructions given by the superiors and undertake their work as a routine matter. In MBO the purpose of every person is clearly defined with his or her own consent. People in the organisation have an opportunity to put their own ideas before superiors, discuss the pros and cons of various suggestions and participate in setting the final objectives. When a person is a party for setting objectives then he will make honest endeavour to achieve them. He will feel committed to reach the goals decided with his consent. A feeling of commitment brings enthusiasm and helps in reaching the goals.

#### 4.Developing controls:

MBO mechanism helps in devising effective controls. The need for setting controls is the setting of standards and then finding out deviations if any. In MBO, verifiable goals are set and the actual performance will help in finding out the deficiencies in results. Every person is clear about what is expected from him and these standards act as clear cut controls. So controls can easily be devised when MBO is followed.

**2.a Define decisions.**

A decision is a [choice](http://www.businessdictionary.com/definition/choice.html) made between alternative courses of [action](http://www.businessdictionary.com/definition/action.html) in a situation of [uncertainty](http://www.businessdictionary.com/definition/uncertainty.html).

**2.b.Describe the rational decision making process in business.**

Decision-making is an important aspect of planning. Without making decision nothing can be done. For performing vat1ous aspects of management functions like planning, organizing, control, etc., decisions should be made because it helps to set objectives, prepare plans of action, introduce innovations, determine organizational structure of the concern and so on.

#### Key points.

* Rational decision making favours objective data and a formal process of analysis over subjectivity and intuition.
* The model of rational decision making assumes that the decision maker has full or perfect information about alternatives; it also assumes they have the time, cognitive ability, and resources to evaluate each choice against the others.
* This model assumes that people will make choices that will maximize benefits for themselves and minimize any cost.

#### Key terms.

* **Rational decision making**: A logical, multi-step model for choosing between alternatives that follows an orderly path from problem identification through solution.
* **perfect information**: A situation in which all data that is relevant to a particular decision is known and available to the decision maker.

The process of rational decision making favours logic, objectivity, and analysis over subjectivity and insight. The word “rational” in this context does not mean sane or clear-headed as it does in the colloquial sense.

The approach follows a sequential and formal path of activities. This path includes:

1. Formulating a goal(s)
2. Identifying the criteria for making the decision
3. Identifying alternatives
4. Performing analysis
5. Making a final decision.

The rational model of decision making assumes that people will make choices that maximize benefits and minimize any costs. The idea of rational choice is easy to see in economic theory. For example, most people want to get the most useful products at the lowest price; because of this, they will judge the benefits of a certain object (for example, how useful is it or how attractive is it) compared to those of similar objects. They will then compare prices (or costs). In general, people will choose the object that provides the greatest reward at the lowest cost.

The rational model also assumes:

* An individual has full and perfect information on which to base a choice.
* Measurable criteria exist for which data can be collected and analysed.
* An individual has the cognitive ability, time, and resources to evaluate each alternative against the others.

The rational-decision-making model does not consider factors that cannot be quantified, such as ethical concerns or the value of altruism. It leaves out consideration of personal feelings, loyalties, or sense of obligation. Its objectivity creates a bias toward the preference for facts, data and analysis over intuition or desires.

## Problems with the rational decision making model.

Critics of the rational model argue that it makes unrealistic assumptions in order to simplify possible choices and predictions.