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1a. What is management by objectives (MBO)?

**Management by objectives** (**MBO**), also known as **management by results** (**MBR**), was first popularized by [Peter Drucker](https://en.wikipedia.org/wiki/Peter_Drucker) in his 1954 book *The Practice of Management*.[]](https://en.wikipedia.org/wiki/Management_by_objectives#cite_note-Practice-1) Management by objectives is the process of defining specific objectives within an organization that [management](https://en.wikipedia.org/wiki/Manager_%28disambiguation%29) 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.[]](https://en.wikipedia.org/wiki/Management_by_objectives#cite_note-2) An important part of MBO is the measurement and comparison of an [employee](https://en.wikipedia.org/wiki/Employee)'s actual [performance](https://en.wikipedia.org/wiki/Performance_management) with the standards set. Ideally, when employees themselves have been involved with the [goal-setting](https://en.wikipedia.org/wiki/Goal-setting) and choosing the course of action to be followed by them, they are more likely to fulfill their responsibilities. According to [George S. Odiorne](https://en.wikipedia.org/wiki/George_S._Odiorne), the system of management by objectives can be described as a process whereby the superior and subordinate jointly identify common [goals](https://en.wikipedia.org/wiki/Goal), 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

1b. Describe the. **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**](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.

1c. What is the usefulness of MBO to a business organization?

**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.

2a. Define Decision?

In [psychology](https://en.wikipedia.org/wiki/Psychology), **decision-making** is regarded as the [cognitive process](https://en.wikipedia.org/wiki/Cognition) resulting in the selection of a belief or a course of action among several alternative possibilities. Every decision-making process produces a final [choice](https://en.wikipedia.org/wiki/Choice), which may or may not prompt action.

Decision-making is the process of identifying and choosing alternatives based on the [values](https://en.wikipedia.org/wiki/Value_%28ethics%29), [preferences](https://en.wikipedia.org/wiki/Preference) and beliefs of the decision-maker.

2b. Describe the rational Decision-making process in Business

**Identify Problems**

The first step in the process is to recognize that there is a decision to be made. Decisions are not made arbitrarily; they result from an attempt to address a specific problem, need or opportunity.

A supervisor in a retail shop may realize that he has too many employees on the floor compared with the day's current sales volume, for example, requiring him to make a decision to keep costs under control.

**Seek Information**

Managers seek out a range of information to clarify their options once they have identified an issue that requires a decision. Managers may seek to determine potential causes of a problem, the people and processes involved in the issue and any constraints placed on the decision-making process.

**Brainstorm Solutions**

Having a more complete understanding of the issue at hand, managers move on to make a list of potential solutions. This step can involve anything from a few seconds of tough to a few months or more of formal collaborative planning, depending on the nature of the decision.

**Choose an Alternative**

Managers weigh the pros and cons of each potential solution, seek additional information if needed and select the option they feel has the best chance of success at the least cost. Consider seeking outside advice if you have gone through all the previous steps on your own; asking for a second opinion can provide a new perspective on the problem and your potential solutions.

**Implement the Plan**

There is no time to second guess yourself when you put your decision into action. Once you have committed to putting a specific solution in place, get all of your employees on board and put the decision into action with conviction. That is not to say that a managerial decision cannot change after it has been enacted; savvy managers put monitoring systems in place to evaluate the outcomes of their decisions.

**Evaluate Outcomes**

Even the most experienced business owners can learn from their mistakes. Always monitor the results of strategic decisions you make as a small business owner; be ready to adapt your plan as necessary, or to switch to another potential solution if your chosen solution does not work out the way you expected.