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**MATRIC NO: 16/SMS03/004**

**DEPARTMENT: BUS ADMIN**

**COURSE CODE: BUS 206**

**What is Management by Objective (MBO)**

A management system in which the objectives of an organization are agreed upon so that management and employees understand a common way forward.

Management by objectives aims to serve as a basis for (A) greater efficiency through systematic procedures, (B) greater employee motivation and commitment through participation in the planning process, and (C) planning for results instead of planning just for work. In management by objectives practice, specific objectives are determined jointly by managers and their subordinates, progress toward agreed-upon objectives is periodically reviewed, end results are evaluated, and rewards are allocated on the basis of the progress.

**Describe the MBO Process**

1. Define organizational goals

2. Define employee’s objectives

3. Continuous monitoring performance and progress

4. Performance evaluation

5. Providing feedback

6. Performance appraisal

**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.

**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.

**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 is associated with the term performance evaluation, but in some cases, both differ from each other.process.

**Benefit of MBO**

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.

**DEFINITION OF DECISION**

The thought process of selecting a logical choice from the available options.

When trying to make a good decision, a person must weight the positives and negatives of each option, and consider all the alternatives. For effective decision making, a person must be able to forecast the outcome of each option as well, and based on all these items, determine which option is the best for that particular situation.

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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. Every decision-making process produces a final choice, which may or may not prompt action. Decision-making is the process of identifying and choosing alternatives based on the values, preferences and beliefs of the decision-maker

**Rational Decision-Making Process in Business**

Phases 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. 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.

**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.

**6. Conversion of Decision into Action:** If the decisions 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. Bottom of Form