Management By Objectives (MBO)

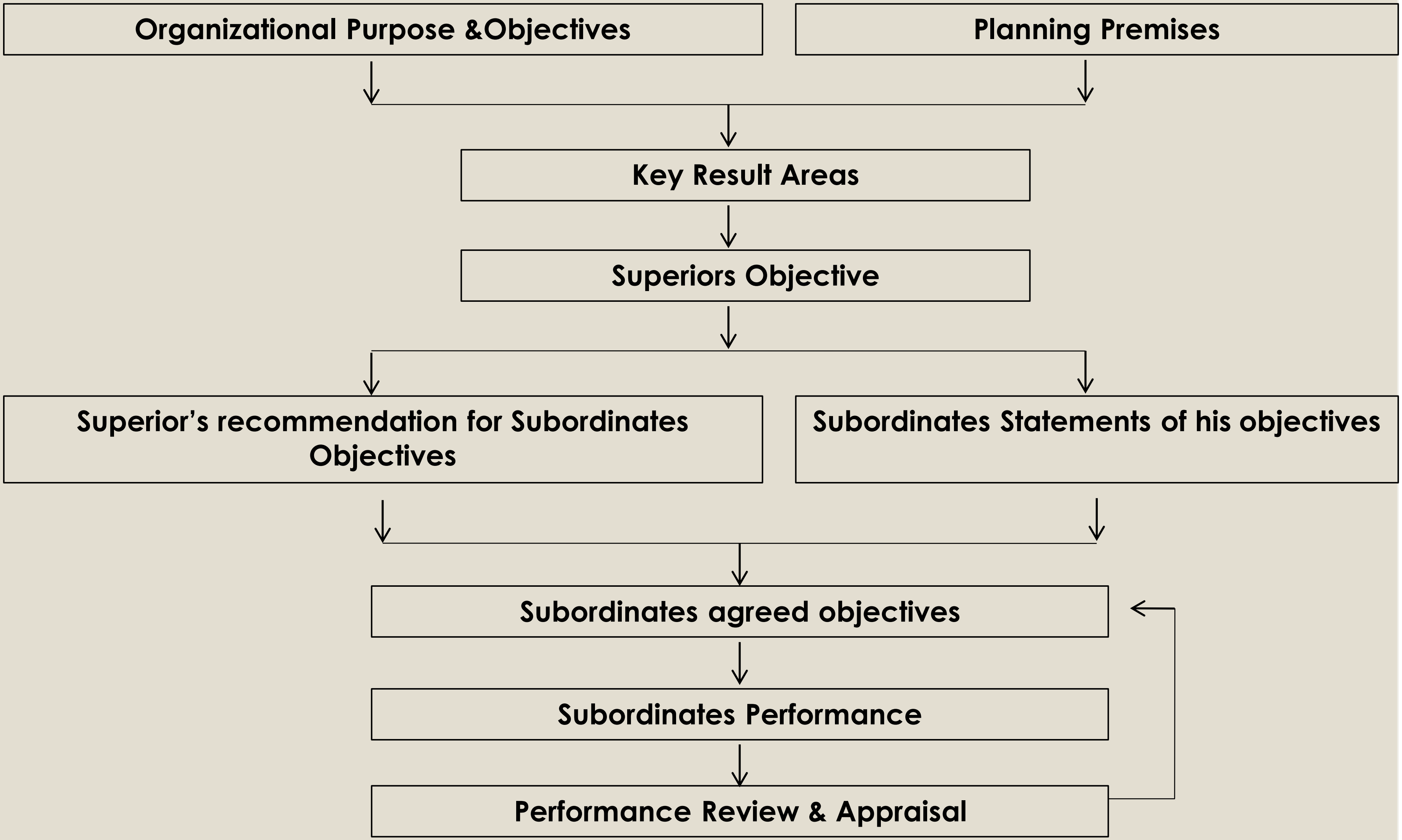
- The term MBO was coined by Peter Drucker in 1954 when he emphasized the concept of Management by Objective.

- "MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner, consciously directed towards the effective and efficient achievement of organizational objectives."

Features of MBO

- MBO is an approach and philosophy
- MBO is approach to management
- The MBO is characterized by the participation of concerned managers in objective setting and performance reviews.
- Periodic review of performance
- Objectives in MBO provide guidelines for appropriate system and procedures.

Process of MBO



Process of MBO

1. **Setting of organizational purpose and objectives**

- It must ask certain question as, Why does the organization exist?
- What should be our business?
- It provides guidelines for the statement of purpose.
- Objectives start from top level management and reach to bottom level.

Process of MBO

2. Identification of Key Result Areas

- Organizational objectives and planning premises together provide the basis for the identification of Key Result Area(KRA).
- KRA also indicate present state of an organizations health and top management perspectives for the future.
- Examples of KRA's to most of business organizations are- Profitability, market standing, innovation, productivity, worker performance, financial and physical resources, manager performance, and public responsibility.

Process of MBO

3. Setting Subordinate's Objectives

- Each individual manager must know what he is expected to achieve.
- Superior and subordinate seat together for objective setting process.
- Superior state the objectives to subordinate.
- There may be wide gap between recommended objectives by superior and suggested objectives by subordinate.
- Mutual negotiation happens between both of them.

Process of MBO

4. Matching resources with Objectives.

- Resource availability becomes important aspects of objective setting because it is the proper application of resources which ensures objective achievement.

5. Appraisal

- It checks whether the subordinate is achieving his objectives or not.
- If not, what are problems and how these problems can be overcome.
- Appraisal must be undertaken as an on-going process.

Process of MBO

6. Process Continuity

- It is used as an input for recycling objectives and other actions.
- Objectives are neither set at the top and communicated to the bottom nor are they set at the bottom and go up.
- Objective setting is a joint process through interaction between superior and subordinate.

Process Continuity

- **Objective Setting**
- **Action Planning**
- **Performance Review**

Benefits of MBO

- Better Performance
- Focus on Key Result Areas
- Personnel Satisfaction
- Basis for Organizational Change

Limitations of MBO

- Time and Cost
- Failure to teach MBO philosophy
- Problems in Objective Setting
- Emphasis on Short-term Objectives
- Inflexibility
- Frustration

DECISION MAKING

Decision

- The word ‘decision’ has been derived from the Latin word ‘decidere’ which means a cutting away or cutting off.
- **“A decision represents a judgment; a final resolution of a conflict of needs, means, or goals; and a commitment to action made in face of uncertainty, complexity, and even irrationality”**

Features of Decision Making

- Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected result.
- Existence of alternatives suggests that the decision maker has freedom to choose alternative.
- Decision may not be completely rational but may be judgmental and emotional in which personal preferences and values of the decision maker play significant role.
- Decision making, like any other management process, is goal oriented.

Types of Decisions

- Herbert Simon has grouped organizational decisions into two categories based on the decision factors which are taken into considerations.
  - **Programmed Decisions**
  - **Non-programmed Decisions**
- Organizational decisions are classified as-
  - **Strategic Decisions**
  - **Tactical or Operational Decisions**

Types of Decisions

- **Programmed Decisions**
- They are routine and repetitive and are made within the framework of organizational policies and rules.
- These policies and rules are established well in advance to solve recurring (frequent) problem.
- Ex: Promotion of an employee
- These decisions are comparatively easy to make as these are relate to the problems which are solved by considering internal organizational factors.
- These are made by personnel at lower levels in the organizations.

Types of Decisions

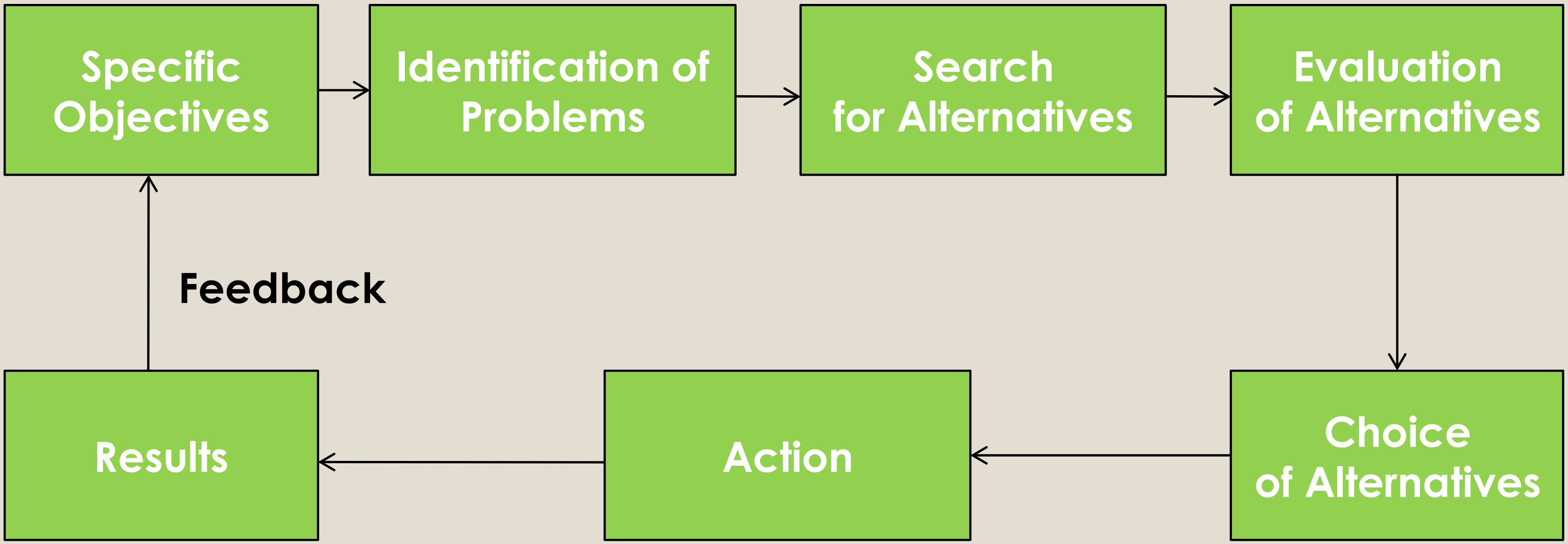
- **Non-programmed Decisions**
- They are relevant for solving unique/unusual problems.
- In which alternatives can not be determined well in advance.
- The situation is not well structured and the outcomes of various alternatives cannot be arranged in advance.
- Ex: Organization wants to take actions for growth
- They are non-recurring and, therefore, readymade solutions are not available.
- These decisions are of high importance because of their long term impact, they are made by top level managers.

Types of Decisions

- **Strategic Decisions**
- The concept is based on strategy.
- "Strategic decision is a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives"
- **Tactical decisions**
- Tactical or operational decisions are derived out of strategic decisions.
- It relates to day-to-day working of the organization and is made in context of well set policies and procedures.

Decision Making Process

Decision making process depicted in following figure:



Decision Making Process

1. Specific Objectives

- The need for decision making arises in order to achieve certain objectives.
- Every action of human being is goal directed.
- Decision making is also an action, hence, objectives are need to be referred.
- However, objective setting is an outcome of earlier decisions, this may not be truly first step but it provides framework for the decision.

Decision Making Process

2. Problem Identification

- Identification of problem is the real beginning of decision making process.
- A problem can be identified much clearly, if managers go through diagnosis and analysis of the problem.

a. Diagnosis

- The term has derived from medical science where it is used as the process of identifying dieses from its sign and symptoms.
- A symptom is a condition or set of conditions that indicates the existence of problem.
- Ex: If an organization has high turnover ratio of it employee, it indicates something is wrong.
- The symptom of ("security of job") of high turnover may provide a real problem to the manager.

Decision Making Process

2. Problem Identification

a. Diagnosis

- Diagnosing the real problem implies the gap between what is and what aught to be, identifying the reasons or gap, and understanding the problem.

b. Analysis

- The analysis of the problem requires to find out-
  - Who would make decision?
  - What information would be needed?
  - Where the information is available?
- It provides revealing circumstances that help to gain insight of the problem.
- This step helps in knowing "What is needed" and "Where the alternatives for doing the thing".

Decision Making Process

3. Search for Alternatives

- A problems can be solved in several ways, however, all the ways can not be equally satisfying.
- If there is only one way of solving a problem, no question of decision arises.
- Therefore, the decision makers has to find out more alternatives through which same problem can be solved.
- A decision maker can make use of several sources for generating of alternatives:
  - Past experiences
  - Practices followed by others
  - Using creative techniques, etc.…

Decision Making Process

4. Evaluation of Alternatives

- However, all alternatives available for the decision making will not be undertaken for detailed evaluation because of limitations of manager in evaluation of alternative.
- In narrow down the list of alternatives two approach can be useful:
    - **Constraints on alternatives** (i.e. list of criteria must match in alternative)
    - **Grouping of alternatives of similar nature** (i.e. producing outside the company and producing on contract basis can be grouped together)

Decision Making Process

4. Evaluation of Alternatives

- After narrowed list of alternatives, each one is evaluated in the lights of contribution of them in achieving of objectives.
- Tangible factors like -
    - Cost (investment required), benefits (output to be received)
- Intangible factors like –
    - Qualitative factors like psychological, ecological balance, etc…
- In evaluating alternatives, both of these factors taken into consideration.

Decision Making Process

5. Choice of Alternatives

- Choice aspects of decision making is related to deciding the most acceptable alternatives which fits with the organizational objectives.
- Thus, it is not necessary that chosen alternative is the best one alternative.
- In choosing an alternative, the decision maker can go through three approaches:

1. **Experience**
2. **Experimentations**
3. **Research and Analysis**

Decision Making Process

6. Action

- Once alternative is selected, it is put into action.
- By implementation of alternative, manager can come to know whether objectives are achieved or not by choosing an alternative.
- Implementation requires, the communication to subordinates, getting acceptance of subordinates, getting their support in putting decision into action.
- The effectiveness of action is important, because right decision may fail to achieve desired result if action (right implementation) is failed.

Decision Making Process

7. Results

- It decision put into action, it brings certain results.
- These results must be corresponding to objectives, hence, it must be compared with those objectives.
- It indicated whether proper implementation has taken place or not.
- Manager can take necessary follow-up actions in the light of feedback received from results.
- If there is any deviation between results and objectives, this should be analyzed and modified as need arises.
- Hence, its continuous or on-going process.