Introduction to Management

Module 3

Management by Objectives; Decision Making, Creativity, MIS

Chapter-5

MANAGEMENT By OBJECTIVES (MBO)

Management by objectives
(aligned to organisation's vision and mission)

- Objectives are the endpoints, towards which activities are aimed. MBO is the philosophy of management that emphasizes the development of mutual objectives by managers and their subordinates and the use of these objectives as the primary basis of motivation, evaluation, and control efforts.
- *The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims*.
- The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans.

Definitions of MBO

- MBO is "*a process where by superior and subordinate managers of an Organization jointly define its common goals, define each individual's major areas of responsibility in terms Of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members*."
  - George Odiorne

- MBO is "a dynamic system which seeks to integrate the company's needs to clarify and achieve its profits and growth goals with the manager's need to contribute and develop himself. It is a demanding and rewarding style of managing a business."
  - John Humble

Mission

- *Mission defines the fundamental purpose of an organization or an enterprise*, succinctly describing *why it exists and what it does to achieve its vision*.
- For example, the charity mission might have a mission statement as "*providing jobs for the homeless and un employed*".

Mission Statements

Mission statements are characterised by the following :

1.Customer-oriented : Mission statements are directed at serving the customers in useful way.

2. Future-oriented : Mission statements must be indicative of what the business is going to do in the years ahead. The statement must remain valid for at least some years to come.

3. Dynamic : The concept of mission is dynamic and not a stratic one. Thus, where the mission statement is defined in a narrow way, new opportunities and threats from competitive business may be lost sight of.

Mission statements must be defined in such a way where it would be possible for the firm to take care of new opportunities and also concentrate on some specific areas, *where it has some competitive edge over others.*

Vision

- It outlines what the organization wants to be, or how it wants the world in which it operates to be.
- It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration.
- For example, a charity organization working with the poor might have a vision statement which reads "A World without Poverty."

Objectives and goals

The term ‘objective’ and ‘goal’ indicate an end result to be sought and accomplished. Goals and objectives both have value orientations and indicate conditions considered necessary to improve the overall performance of the organisation.

- **Objectives** are goals established to guide the efforts of the organization and each of its components
- Objectives indicate the ‘end point of a management programme’.

- **Goal :** It is a desired state of affairs which an organisation wants to realise.

Characteristics of objectives

Objectives have the following features :

- Objectives from a *hierarchy*
- Objectives from a *network*
- *Multiplicity* of objectives
- *Long and short range* objectives

Objectives or Purposes

- Translate main statement into operational terms.
- To give directions and set standards for the measurement of performance.
- To measure and judge performance
- To relate individual performance to organizational goal
- To foster increasing competence and growth of subordinates
- To enhance communication between superiors and subordinates
- To serve as a basis for judgments about salary and promotion
- To stimulate subordinates’ motivation
- To serve as a device for organizational control and integration
- *To set long term and short term objectives*

Areas which need Objectives

Peter Drucker identified 8 key areas in which organisations need objectives to be set up:

- Market Standing
- Innovation
- Productivity
- Physical and financial resources
- Managerial performance and development
- Worker's performance and attitudes
- Profitability
- Public and social responsibility

MBO : The Process

- To achieve greater efficiency and performance, employee's motivation is really important.
- Management by Objectives (MBO) is a best approach to do so.
- ***This approach was proposed by Peter Drucker in the 1960's, and by definition, process of management by objectives show a personnel management system, where the organization set, plan, monitor and achieve specific objectives with the mutual cooperation of both high level and low-level employees*** .
- The process of MBO involves six key steps that incorporate managerial activities in such a systematic way, which is directly influenced towards efficient and effective achievement individuals and organizational objectives.
  - Determining Organisational Goals
  - Determining Employees objectives
  - Constant Monitoring Progress and Performance
  - Performance Evaluation
  - Providing feedback
  - The Performance Appraisal

Benefits of MBO

1. **Clear Goals:** MBO produces clear goals where performance is measurable.

2. **Better planning:** MBO sharpens the planning process with specific goals which are products of concrete thinking.

3. **Facilitates control:** A clear set of verifiable goals provide for exercising better control.

4. **Objective appraisal:** MBO provides a basis for evaluation an individual's performance since goals are jointly set by supervisor and subordinates. Appraisals would be more objective and impartial since employee performance is evaluated against, verifiable objectives.

MBO benefits (Contd…..)

5. **Motivational force:** Motivates managers in forward planning and living life in an anticipatory mode rather than responding to events. It forces managers to think of result oriented planning rather than planning for activities.

6. **Better morale:** Participative decision making and two-way communication encourage the subordinates to communicate freely and honestly. It minimizes the possible misunderstanding.

7. **Result-oriented philosophy:** Managers are forced to develop specific goals, develop appropriate action plans, marshall the resources properly and establish the controls needed.

Limitations of MBO

- It is Time-consuming
- Approach is Reward-punishment oriented
- Increases paper-work
- Possibility for conflicting objectives
- Problem of coordination
- Specific goal setting may be difficult at times
- Trained managers on MBO are not in plenty
- Pressure and stress oriented
- Leading to lack of flexibility in the name of setting up goals and objectives

Suggestions for improving MBO

- One of the reasons for the failure of MBO in many organisations is that those in charge fail to recognise the potential character of the implementation process. The fault is not in the system but in its use. As with any technique, there is a right and a wrong way to implement MBO programmes.
- The following suggestions would help in making use of MBO programs properly.
    - Enhance Commitment levels among the staff
    - Focusing on Training and Development
    - Adequate time and resources need to be allocated
    - Timely, feedback and realigning the plans accordingly
    - Politics to be avoided

Chapter-6

Decision Making; Creativity; and Management Information System

INTRODUCTION

- *“Decision making is the process of making a choice between a number of options and committing to a future course of action”.*
- Decision making requires choosing one course of action from among available alternatives.
- Today’s decision makers confront the challenge of dealing with complexity, uncertainty and also need flexible thinking.
- Decision making can be regarded as the mental processes resulting in the selection of a course of action among several alternatives.
- Every decision making process produces a final choice. The output can be an action or an opinion of choice.
- Managers scout for problems, make **decisions** for solving them and monitor the consequences to see whether additional decisions are required.
- Good decision-making is a vital element of good management because decisions determine how the organisation solves its problems, allocates its resources and accomplishes its goals.

Decision

- Making a choice from two or more alternatives.

Decision Making

- The process of examining possibilities and options, comparing them, and choosing a course of action.

Characteristics of decision making

- Goal-oriented
- Alternatives
- Analytical-intellectual
- Dynamic process
- Pervasive function
- Continuous activity
- Commitment of time, effort and money
- Human and social process
- Integral part of planning

Types of decisions

- *Basic and Routine*
- *Personal and organizational*
- *Programmed and programmed*

1. Basic vs Routine Decisions

Basic decisions are --

- Unique
- One time decisions demanding large investments
- Need Creativeness and good judgement on the part of managers

Routine decisions are --

- Repetitive in nature
- Require little deliberation
- Generally concerned with short term commitments

2. Personal vs. organisational decisions

Organisational decisions are --

- Made by managers in their official capacity
- Aimed at furthering the interests of the organisation
- Can be delegated

Personal decisions are --

- Such decisions are taken by managers in their individual capacity.
- Purely taken in personal capacity (eg., deciding at home trying what to do during leisure time : watch television, or study or retire early)

3. Programmed and Non-programmed decisions

Programmed decisions

- Problems are routine and repetitive
- Decided in accordance with some rule, procedure or convention
- Conditions are highly certain
- Made by lower level officials

Non Programmed decisions

- Problems are unique and novel
- No pre-established policies or procedures to rely upon
- Each situation is different and needs a creative solution
- Conditions are highly uncertain
- Top management responsibility

Decision making process

Making a good decision is a difficult exercise and requires a sequence of steps to be followed to arrive at a good decision

1. Identifying the problem

A problem is defined as a *discrepancy between an existing and a desired state of affairs.* Caution needs to be exercised to :

- Make sure it's a problem and not just a symptom of a problem.
- Problem identification is subjective.
- Discrepancies can be found by comparing current results with some set standards.
- Managers aren't likely to characterize a discrepancy as a problem if they perceive that they don't have the authority, information, or other resources needed to act on it.

Decision making process (Contd..)

2. Identifying decision criteria

- Identify the factors relevant
- Investment required
- Chances of failure
- Outcomes desired

3. Allocating weights to the criteria

- Prioritizing the items in the order of their importance in the decision making; assigning a weight to each item.
- Each possible solution must have features (*pros and cons*).

Decision making process (Contd..)

4. Developing alternatives

- Identify a viable alternative that could also resolve the problem.
- At this point we are just listing the alternatives

5. Analyzing alternatives

- Evaluating each alternative - its strengths and weaknesses.

6. Selecting alternative

- Choosing the best alternative

Decision making process (Contd..)

7. Implementing the decision

- Putting the decision into action by conveying into those affected and getting their commitment to it.

8. Evaluating the effectiveness of the decision

- Evaluating the outcome or result of the decision to see if the problem was resolved.
- If the problem still persists, the managers should re-assess the problem and start over again.

Individual decision making – three approaches

Under the classical theory proposed by Tylor, Fayol, Weber etc.

- Individuals are assumed to be rational beings, working toward organisational goals scrupulously.
- Decision-making process is supposed to be logical, unemotional and rational.
- The decision maker can be fully objective and logical.

1) The Rational Economic Model

The term 'rationality' implies a consistent and value-maximising choice within certain limits. It means that the decision-maker as an economic being, tries to select the best alternative for achieving the optimum solution to a problem. M

The decision-making process, described in the earlier section, is based on certain assumptions:

-**Decision-making is a goal-oriented process**

-All choices are known

-Order of preference

-Maximum advantage

Individual decision making – three approaches (Contd..)

The rational economic model is prescriptive and normative; it explains how decision makers ought to behave.

Rationality is an ideal and can be rarely achieved in any organisation

Many factors intervene in being perfectly rational :

- Impossible to state the problems accurately
- Not fully aware of the problems
- Imperfect knowledge
- Limited time and resources
- Cognitive limits
- Politics

Thus, the rational economic model is an idealistic, perhaps even naive, model of decision-making which works only when all the underlying assumptions prevail.

Individual decision making – three approaches (Contd..)

2) Descriptive Decision theory (Behavioural theory) / The administrative model :

The objective of the administrative model, proposed by Herbert A. Simon and refined by Richard Cyert and James March, is to explain the decision-making behaviour of individuals and organisations. According to Simon, people carry only a limited, simplified view of problems confronting them because of reasons like :

(i) They do not have full information about the problems,

(ii) They do not possess knowledge of all the possible alternative solutions to the problem and their consequences.

(iii) They do not have ability to process competitive environmental and technical information.

(iv) They do not have sufficient time and resources to conduct an exhaustive search for alternative solutions to the problems.

Thus human and organisational limitations make it impossible for people to make perfectly rational decisions. There are always 'boundaries to rationality' in organisations.

Individual decision making – three approaches (Contd..)

3) The political model:

The political model of decision-making is useful for making non-programmed decisions

(i) When conditions are uncertain

(ii) Information is limited

(iii) There is disagreement among managers about what goals to seek or what course of action to pursue.

Such complex decisions are resolved through forming alliances among managers popularly known as coalition building.

When the outcomes are not very clear, managers gain support through discussion, negotiation and bargaining.

Group decision making

- *It is a situation faced when individuals collectively make a choice from the alternatives before them.*
- *Decisions made collectively tend to be more effective than decisions made by a single individual.*
- **Groups use a number of methods to make decisions:**

  (i) authority rule, (the group leader announces the decision)

  (ii) minority rule, (a flew influential members possessing expertise and/or loud voices influence the outcome)

  (iii) majority rule, (decisions decided by voting process)

  (iv) consensus, (most acceptable, not necessarily the best solution for all members)

  (v) unanimity (to resolve complex problems, members rally behind a point of view)

Group decision-making is different in process and outcome from decision-making done by individuals in the following ways:

1) Conformity 2) Group thinking 3) Superiority 4) Less Risky

Advantages and disadvantages of group decision making

Advantages :

1. Compared to an individual, the groups generally have a greater knowledge, expertise, & skill base to make better decisions.
2. Larger number of members provide more perspectives of the problem.
3. With larger number of group members, the participation also increases that helps reach quality decision.
4. Following increased participation, comprehension of final decision arrived at is usually high.

Disadvantages

1. It is a time consuming process.
2. Domination by the few.
3. Influencing members usually manipulate the group decision in a direction of their interest & liking.
4. Sometimes it is just a compromise between the various views & options offered by the group members.
5. Pressures to conform and fit in.

Group decision making techniques

Success in group decision-making usually depends on developing a variety of good alternatives and selecting one satisfactory solution in an impartial fashion. In order to improve the group decision-making, certain techniques have been proposed.

1. Brainstorming

- This technique involves a group of people, usually between five and ten, sitting around a table, generating ideas in the form of free association.
- The primary focus is on generation of ideas rather them on evaluation of ideas.
- Brainstorming technique is very effective when the problem is comparatively specific.

Group decision making techniques (Contd..)

2. Nominal Group Technique (NGT)

Steps in Nominal group technique

- *Each member independently writes down his or her ideas on the problem.*
- *Each member presents one idea to the group.*
- *Group discusses the ideas for clarity and evaluates them.*
- *Ranks the ideas.*
- *Final decision is based on highest rank.*

Group decision making techniques (Contd..)

3.Delphi Technique:

This technique is the modification of the nominal group technique

- The problem is identified and a sample of experts is selected.
- These experts are asked to provide potential solutions through a series of carefully designed questionnaires.
- Each expert completes and returns the initial questionnaire.
- The results of the questionnaire are compiled at a central location and the central coordinator prepares a second questionnaire based on the previous answers.
- Each member receives a copy of the results along with the second questionnaire.
- The results typically trigger new solutions or cause changes in the original position.
- The process is repeated until a consensus is reached.

Group decision making techniques (Contd..)

4. Didactic interaction:

- This technique is applicable only in certain situations, but is an excellent method when such a situation exists. The type of problem should be such that it results in a yes-no solution.
- *For example, the decision may be to buy or not to buy, to merge or not to merge, to expand or not to expand and so on.*
- *Such a decision requires an extensive and exhaustive discussion and investigation since a wrong decision can have serious consequences.*

Creativity

- Creativity is essentially the first step in innovation, which is vital for long-term organisational success.
- Creativity is the ability to visualise, foresee, generate and implement new ideas.
- It is the function of knowledge, imagination and evaluation.
- The greater our knowledge, the more ideas, patterns or combinations we can achieve.
- Creative behaviour results in discovering an improved means of accomplishing our purpose.
- *The creative process usually comprises four interconnected stages:*
    - *Preparation and concentration*
    - *Incubation*
    - *Illumination*
    - *Verification*

Characteristics of creativity

1. Bright, but not brilliant. Creativity is not directly related to extraordinarily high intelligence.

2. Good at gathering a high degree of different ideas in a short period of time. These people can produce quality.

3. Possessing a high positive image of themselves. They like who they are.

4. Sensitive to the world around them,. Creative people are aware of their universe.

5. Motivated by challenging problems. These people like to achieve things by overcoming hurdles and barriers.

6. Tend to withhold decisions on a problem until they have collected sufficient data. They are thinkers as well as doers.

7. Value their independence. They do not have a strong need for group approval.

8. Lead a tich, almost bizarre, fantasy life. They daydream widely and in creative ways.

9. Flexible in their thinking and actions. They can change as the situations if required.

10. More concerned with the meaning implications of a problems than with minor details. They look at the big picture.

Developing personal creativity

Creativity is, often thought of as, something that you have or do not have. Recent research shows that this is not correct. People can actually increase their creativity if they follow four important steps:

1. Loosen up emotionally and intellectually. Creative people give free rein to their emotions.
2. Discipline yourself to think creatively. Highly creative people try not to be bound by old ways of looking at problems; they go beyond the familiar.
3. When trying to formulate creativity in a group setting, use approaches like brainstorming. Encourage imagination; discourage criticism.
4. Develop the right climate for creativity of employing a human resources approach to management. People are more creative under conditions of participative management than they are under conditions of autocratic management.

How to improve creative abilities

Creative ability can be increased by observing the following principles :

- Keep track of your ideas, at all times.
- Post new questions every day.
- Read widely in fields that are not directly related to your field of interest.
- Avoid rigid pattern of doing things.
- Be open and receptive to your own as well as to others' ideas
- Be alert in observation.
- Engage in creative hobbies.
- Improve your sense of humour and laugh easily.
- Adopt a risk-taking attitude.

Management Information Systems (MIS)

Introduction

- *MIS provides information for the managerial activities in an organization*.
- MIS provides accurate and timely information necessary *to facilitate the decision-making process and enable the organizations planning, control,* and operational functions to be carried out effectively.
- MIS is basically concerned with processing data into information and is then communicated to the various Departments in an organization for appropriate decision-making.

Scope of MIS

- *Initially used to describe such applications to provide information about sales, inventories, and other data that would help in managing the enterprise*.
- *Of late, Used broadly in a number of contexts and includes decision support systems, resource and people management*.

Définition

The MIS is defined as

- *a system based on the database of the organization,*
- *evolved for the purpose of providing information,*
- *to the people in the organization*.

Need and importance for MIS

MIS offers vital information to managers, so that they can carry out operational control, management control and strategic planning.

Operational Control : MIS offers highly accurate and detailed information, on a daily or weekly basis on the operations.

Middle Management :

- Middle level managers need information on matters affecting their units such as *sudden sales decline*, increased demand for a particular product line, problems with suppliers etc.

Top management :

- MIS provides information on overall financial performance of the organization, and also information relating to external sources to enable the top management to facilitate **strategic planning and management control.**

Designing MIS- Steps involved

1.Problem definition - The team starts by making a thorough assessment of the organisation's capabilities and strategic goals, as well as an assessment of any external factor relevant to organisations functions.

2.Conceptual design - A thorough analysis of current information systems would reveal alternative MIS designs with specific performance requirements. These alternatives could be evaluated against organisational objectives, capabilities and requirements.

3. Detailed design - Once a conceptual plan is decided upon, performance specifications of the new MIS can be established. Components, programming, flow chatting, database can be designed. A model of the system is created, tested, refined and reviewed until it meets the specific levels of performance.

4. Final implementation - The logistics are worked out and enacted.

- Design and testing of software for MIS will be completed and the organisations databases are entered into the system.
- After a series of final checks, the MIS is ready for implementation.
- Training program starts now.

Guidelines for effective design of MIS

- User participation is a must
- Cost-benefit analysis gives us the feasibility
- Relevant information needs to be made available promptly
- Implementation strategy to see what is more practicable : Pilot installation, Phased installation, or Parallel installation
- Training and user help documentation for acquipping the operators

Problems with MIS

- Development of an integrated report to aid managerial decision-making is not easy.
- In the absence of inputs from users, information systems developed by computer specialists may not be put to meaningful use.
- People may resist the design and implementation of MIS, as it threatens their position in the organisation.
- There is a possibility that a computer based MIS will eliminate or substantially, alter some first-line and middle-management jobs.