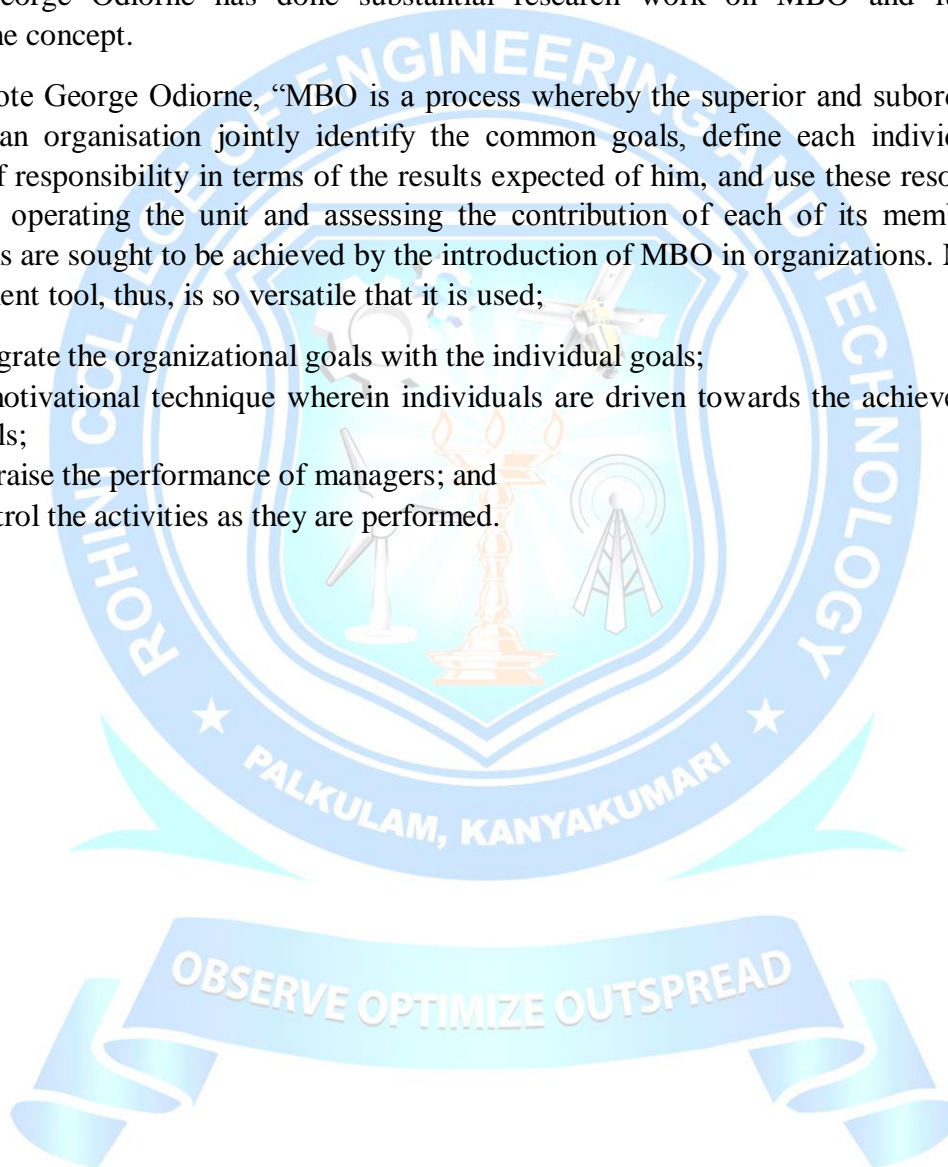


## MANAGEMENT BY OBJECTIVES

Management guru Peter Drucker is credited with being the first to introduce Management by Objectives (MBO) as an approach for increasing organizational effectiveness. He observes that every manager, from the highest to the lowest levels in the organisation, should have clear objectives to pursue. According to him, such a process would enable each manager to have a clear understanding of what the organisation expects of him or her and how their individual objectives are integrated with the overall organizational objectives. George Odiorne has done substantial research work on MBO and further popularized the concept.

To quote George Odiorne, “MBO is a process whereby the superior and subordinate managers of an organisation jointly identify the common goals, define each individual’s major areas of responsibility in terms of the results expected of him, and use these resources as guides for operating the unit and assessing the contribution of each of its members”. Different goals are sought to be achieved by the introduction of MBO in organizations. MBO, as a management tool, thus, is so versatile that it is used;

- ✓ to integrate the organizational goals with the individual goals;
- ✓ as a motivational technique wherein individuals are driven towards the achievement of goals;
- ✓ to appraise the performance of managers; and
- ✓ to control the activities as they are performed.



## POLICIES

Decision-making is the primary task of a manager. While making decisions, it is common that managers consult the existing organizational policies relevant to the decisions. Policies provide the basic frame work within which managers operate. Policies exist at all levels in the organisation. Some may be major company policies affecting the whole organisation while others may be minor in nature affecting the departments or sections within the departments. Thus, policies are, intended to provide guidance to managers in decision-making. It may be remembered that a policy is also a decision. But it is a one time standing decision in the light of which, so many routine decisions are made.

### Policy Formulation

As mentioned earlier, the basic intention of policies is to help executive thinking in decision-making. Policies are formulated for all the key functional areas of business like production, marketing, finance, personnel and so on. Effectiveness and consistency of decisions in all these areas depend on how well the policies are formulated and understood. A policy is a plan. Therefore, the steps involved in policy formulation are similar to the steps in planning. Though policies vary in respect of scope, the process of policy formulation usually involves the following steps

**a. Corporate Mission** -Corporate mission specifies the purpose for which the organisation exists. It relates the organisation to the environment in which it operates. It is natural, therefore that all the activities of the organisation are geared towards the achievement of the mission. The mission statement provides the direction to the organisation. As such, thorough understanding of the corporate mission is the starting point for policy formulation.

**b. Appraisal of the Environment** -Environment appraisal in a systematic way is the key for successful formulation of the policies. Correct appraisal of the environment enables the organisation to integrate its activities with the needs of the society. As such, the nature of the environment, the various dynamics of it have to be analysed. It includes collection of relevant information from the environment and interpreting its impact on the future of organisation.

**c. Corporate Analysis** - While the focus in environmental appraisal is on the internal factors of the business, corporate analysis takes into account the internal factors. Corporate analysis discloses strengths and weaknesses of the organisation and points out the areas that have potential. This is an inward-looking exercise.

**d. Identification of Alternatives** - The above two steps – environmental appraisal and corporate analysis popularly known as SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis will help identifying the alternative policies. For example, the objective of the organisation is expansion. This may be achieved by several ways, diversification of the activities, acquisition of existing businesses, and establishment of subsidiaries abroad and so on. Again, if diversification is chosen, it has to be decided whether it is into related or unrelated business. The alternative policies thus identified have to be evaluated in the light of the organizational mission and objectives.

**e. Choice of the Right Policy** -This stage involves choosing the right policy from among the several policy options that suits the organizational objectives. The Corporate history, personal

values and attitude of the management and the compulsions in the environment, if any, influence the choice of the policy.

**Policy Implementation** -Effective implementation of the policy requires designing suitable organisational structure, developing and motivating people to contribute their best, designing effective control and information systems, allocation of resources, etc. At times, policies may have to be revised in line with the changes in the environment. Further, policies need to be monitored constantly during the implementation stage so that inadequacies if any, may be corrected at the appropriate time.

