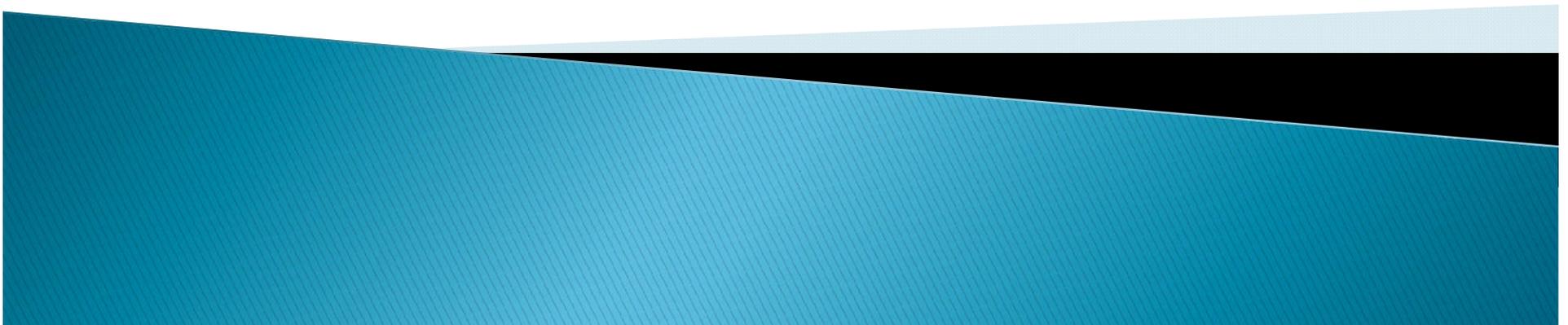
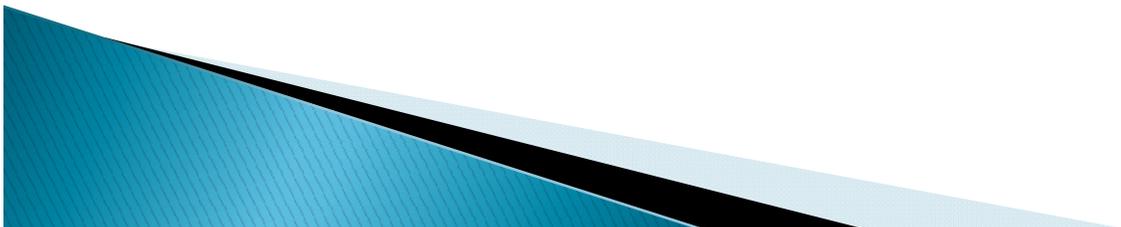


MANAGEMENT BY OBJECTIVES (MBO)



MEANING

- ▶ MBO is a process where the superiors and the subordinates jointly identify the objectives.
- ▶ The objective is to make optimum utilization of the resources of the organization. This concept was propounded by the Peter Drucker in 1954.



STEPS IN MBO PROCESS

MBO involves planning and controlling activities in the Key Result Areas. Thus, MBO involves steps in planning as well as controlling. The main steps in MBO are :

Analysis of Environment

|

collectively Formulate Objectives

|

collectively Frame Plans

|

Selecting Best Plan

|

Implementation of plans

|

Follow-up of Performance

1. Analysis Of Environment :

The superior and subordinates must analyze the internal and external environment to conduct **SWOT analysis**:

(a) Analysis of **Internal Environment**: The analysis of internal environment involves analysis of :

- Management Philosophy ,Manpower capabilities.
- Management–Employee Relationship.
- Human Resource Policies, Organizational Strategy.
- Technology and Processes.
- (b) Analysis of External **Environment**: The analysis of external environment involves analysis of: Government Policies. Competitors Strategies. Customer requirements

International Environment.

The managers must consider the opportunities and threats in setting the goals.



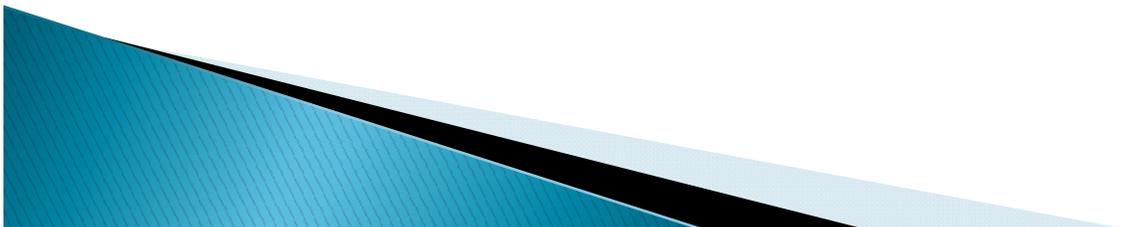
2. Collectively Formulating Goals:

On the basis of SWOT analysis, the superior and subordinate jointly decide and **formulate the goals**, which the subordinate needs to achieve.

- The finance department may set the goal- “To reduce bad debts to 2%in the year 2013.”

3 Collectively Formulating Plans:

- After setting goals, the superior and subordinate jointly formulate action plans to achieve the goals. Generally, alternative plans are framed.



4. Evaluating the Alternative Plans:

The superior and subordinate evaluate the alternative plans before selecting the best plan. The managers conduct analysis of cost and benefits of each and every plan.

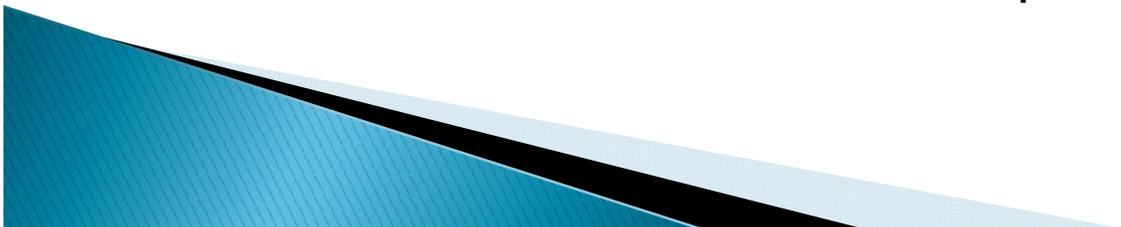
5. Selection of the Best Plan:

On the basis of cost–benefit analysis of the alternative plans, the superior and subordinate select the best plan. They select that plan which would give higher benefits at lower costs.

6. Implementation of Plan:

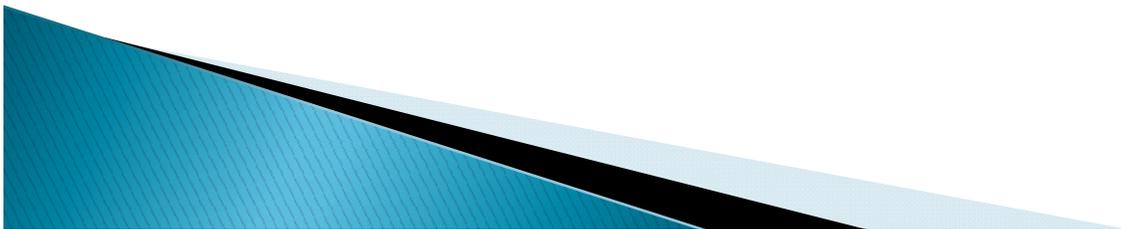
In implementing the plan, the managers undertake the following activities:

- Organizing the resources.
- Directing the subordinates.
- Motivate the subordinates to implement the plan effectively.



7. Follow-up/Review:

In the final stage, the management undertakes annual review of the performance. At the performance review, the superior acts as a guide rather than a judge to take stock of the performance.



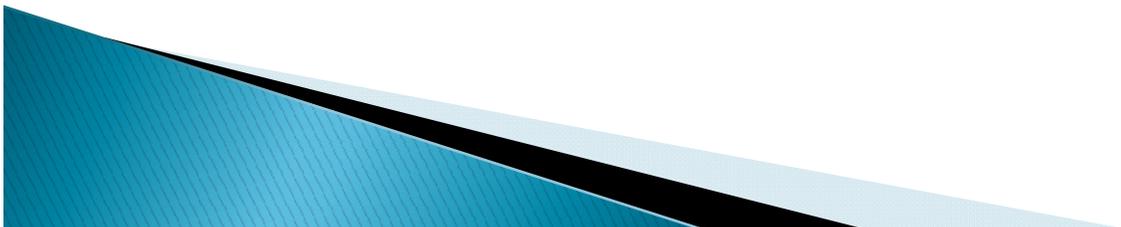
ADVANTAGES OF MBO

1. Proper Planning :

The management and subordinates carefully analyze the **internal environment and external** environment. The analysis of internal environment indicates **strengths** and **weaknesses** and the analysis of external environment reveals **opportunities and threats**.

2. Facilitates Control:

MBO facilitates effective control. The subordinates **implement the plan**. The actual performance is compared against the **planned targets**. The comparison may indicate **deviations**. If necessary, the management and subordinates may **reset the goals**.

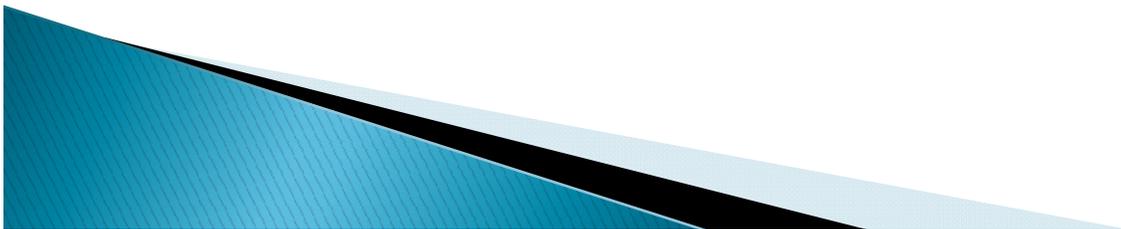


3. Innovation:

The subordinates are responsible for successful **implementation of the plan**. The subordinates are rewarded for **successful** implementation. Generally, innovation gives **competitive advantage** in the market.

4. Corporate Image:

MBO involves **proper planning** and controlling of activities. The subordinates get active support from the **supervisors or top management**. Therefore, the organization may **achieve better results**. Due to **higher performance**, the image of the firm improves in the minds of various **stakeholders**, such as **customers, employees, dealers, shareholders, and others**.



5. Team Work:

There is interaction between the **management** and subordinates in **setting goals**, and in monitoring of performance. The constant interaction helps **to develop good relation** between the superior and subordinates.

6. Optimum Use of Resources:

MBO technique facilitates **optimum use of resources**. The management and employees carefully **set the targets** in key **results areas**, and accordingly **frame plans**.

7. Motivation:

The MBO techniques enables the firm to **attain higher** performance on account of **effective planning and control**. The subordinates **motivated** to fulfill their responsibilities to achieve the targets, as they personally involved in **setting the targets**.

