

Strengths and limitations of management by objectives



The objective of any company can be classified into two types, maximizing objectives and non-maximizing objectives. Often marginal analyses are considered as the prime criteria for maximizing the revenue. The marginal analysis does not interpret how the firms can maximize profit or revenue. The margin analysis tells us about how much they should place the price in order to benefit from the sale through their judgment.

Revenue Maximization

Every firm wants to concentrate on generating the revenues. This type of objective is the primary goal of any organization for the firms' survival in the long run. This is considered as the important objective of the firm because:

It helps in the survival of the company.

The company future is based on the capital source they have.

The management policies are often based on their profits.

The company efficiency is also measured.

It provides rewards based on their performances.

Principle – Agent Problem

The owners who have power over the firm forget the truth that most of the industries are public limited which are generally run by the managers. This leads to the conflict between the stakeholders and the managers whenever the managers chase goals which are different from that of the owners. These conflicts are called as the principle-agent problem, where the shareholder is the principle and the manager is the agent. There are two different methods

involved in this; they are Sales revenue maximization and Growth maximization.

Sales profits Maximization

It is said that the firms run by a manager focuses on sales revenue maximization unlike the owners which mainly focuses on profit maximization. According to W. J. Baumol, the pay of the managers and the perquisites are very much connected with sales revenue maximization than with profit maximization. O. E. Williamson on his " managerial utility maximization" which also relates to that of Baumol, says that the firms run by the managers are mostly based on sales revenue and the managers hunt to make the most of sales revenue. He says that managers' search for fulfillment in larger outflow made possible by higher sales revenue.

Constrained sales profits maximization

According to Williamson and Baumol some limitations can be laid on the manager by the shareholder. The maximum sales revenue is generally measured to come out well above the productivity that generates major profit. The shareholders insist for at least a definite level of the circulated profit and thus the sales revenue can be subjected to this limit.

Growth maximization

The core reasons for companies looking for growth maximization are:

Cost savings

Diversification of product

Diversification of market

Market power

Risk reduction

Internal growth

External growth

External growth of an organization can be made possible by gaining a share of 51% or by joining two firms to form a new firm.

Marris Model Of Growth

R. Marris argues that the goal of the managers and the shareholders have growth in common.

According to him, owners look for growth to heighten individual wealth, whereas the managers look out for growth in the firm so that there is an increase in their income.

Satisficing Theories

According to H. A. Simon, managers cannot spot when a margin reaches the marginal point. In some cases, the managers set minimum levels for their accomplishment. Organizations which are contented in achieving narrow objectives are called as 'satisfice'. The fulfillment of the objectives is an encouragement to the development of the performance.

Conflicts and Goal development

R. M. Cyter and J. G. March recognized that there were different types of group in a firm. While taking a company as a whole, the workers may form a union or a group expecting high wages, job security etc; managers look forward to high salary and power and the stakeholders expect high profit. These types of goals which diverge from one and another causes disagreement inside the firm. For instance; if the labors expect to be paid more, then the profit of the owner gets affected. Some of the objectives recognized by Cyter and March are:

Revenue

Sales

manufacture

Economic

As far as an organization is considered, different groups are involved in pursuing the objectives. To reach the goal set; the managers' have to sacrifice some objectives which are not in favor of others.

Shareholders approaches

Shareholders' can influence or get influenced by the improvements achieved by the objectives set by the firm. Along with the other groups involved in the betterment of the firm, the owners' must also be fulfilled. As proposed by Cyter and March, most of the reputed firms concentrate in solving the disputes which arises between the shareholders.

Ethics

The commonly implemented business ethics is discussed as follows. It is an independent body which gives an opportunity for any industry to grow in a constructive way. The supplier as well as the buyer gets the mutual benefit in the trade. The product quality is the synchronizing factor.

Profit Related Behavior

The profit made by a business above its expectation is called as profit related behavior. Most of the profits maximizing firms' are owner-controlled. According to Shipley (1981) in his study on profit related business behavior compared 728 UK organizations and came to a conclusion that only 15.9% have undergone factual profit maximization. Similarly, Jobber and Hooley in (1987) their study concluded that in their sampling of 1,800 organizations, 40% have gained profit maximization. Profit behavior is considered as the principal objective in increasing a company's profit. It is also involved in the process of decision making.

DELL – THE PC GIANT

DELL - founded by Michael Dell started with the basic computer products. They were moving steadily in the hi-tech computer field for the past two decades among dozens of competitors across the borders. One of the finest advantages they had was the corporate capability in executing things in an effective way.

DELL inc. was founded in the year 1984 three years after the introduction of IBM pc's. On comparing DELL inc. with any other firms they stand as the undisputed leader in the U. S. with a pc sale of 33.1% market share, when

compared with HP 19.5% Dell has acquired the number one position with 17.6% globally. It has about 57,600 employees across the world and the company's revenue for the past year is 49 billion.

When the pc market was into saturation, Dell diversified its products into other areas like services, handhelds, printers and LCD TV's.

Dell was impressive to compete strongly against this issue in its product to grow significantly by selling its PC business to Chinese manufacturer Lenovo.

The idea of going direct and using the internet technology had been a great advantage for DELL and it also significantly gave them the opportunity to maximize their presence globally. Like any other firm, Dell also tries to open their retail market to experiment, but it wasn't successful. Dell always has its own database collection and comparison of competitor product which made them to stand apart. Like every other firms Dell also had its downfalls for four years, they were actually into retail channels. Dell realized that and made a sincere effort to improve its internal in capabilities. Apart from these Dell tried selling through five mass market chains, tried various products mix, tried lower cost product but the revenue margin wasn't there. The above all forced DELL to sell direct.

In the year 1984, Dell tried to justify itself as a retail group, but it had several problems, the major being a middle man. Dell group followed the strategy like Wal-Mart and Best Buy in the expansions of stores but it failed.

Based on the overall experience Dell had it simply implemented go direct and study of metrics. They started to build up the internal data information

flow of the requirements. They started to update metrics the performance level was tracked in a real time - the ROCE, return on capital employed was constantly watched and they thought that there is only little margin of error in maximizing the profit. The above said is nothing but the lean management technique.

Dell's success in claiming up the market leadership is primarily due to the three reasons namely: focus on the customer relationship, best standardized product and the availability of the components.

The importance of direct relationship for Dell is to cut down the cost, avoid the middlemen and constant touch with customer would enable them to have an up-to-date inventory which helps them to match the consumers' attitude, wants and the expectations.

The Dell's advertising capabilities made them to influence in consumers buying behavior and also the reach of the product was phenomenon. Dell capitalized its market presence by constantly offering the hi-tech based product and secondly the fixing up of the commodity rate made them to have more competitive advantage over others.

Dell trust with its consumers was built year by year for example Dell was the company to offer quality service and support. In early days Dell was offering a 30 days money back guarantee, then to 90 days currently they give a guarantee period for one year. They were the first one to offer online support, onsite servicing and also third party technician.

“ Desktop Computers: Dell customers can select from two lines of desktop computer systems. The OptiPlex line is designed for corporate, institutional, and small-business customers who demand highly reliable, stable, manageable, and easily serviced systems within networked environments’. The Dimension line is designed for small businesses and home users requiring fast technology turns and high-performance computing.”

In terms of Research & Development Dell doesn't spend a huge amount to create or update the product. But competitors like Intel; Microsoft contributes more towards R & D. According to former Merrill Lynch & Co. analyst Steven Milunovich “ We've seen this movie before, and at the end of the day, Dell gets the girl”

Dell stands high in the inventory control because they implement zero downing of inventory which means that they are able to manage their cash flow since the computer components deteriorates the longer you keep the inventory. Cutting down of the inventories not an intelligent step but to overcome temporary financial struggle.

CONCLUSION:

DELL'S quick response to a commoditized market sector can be the origin for the lack of clarity in the market, but still there is a lucrative growth and it is very determined in what it is doing. Dell knows pretty well as to how and what to do when there is a shift in the market between standardization to commoditization. DELL seeks a favorable chance to become the leader in the consumer market as the technologies are reaching its peak. The

establishment of digital homes as in Japan would help to increase its marketing strategy.

Many companies have started using AMD processors but Dell argues that its market has not gone down due to its practice of using Intel, but as consumers expect new technologies this new processor (AMD) may further increase Dell's profit in the consumer market.

Dell has recently brought forward the Mac OS (operating system) which takes it further higher than its other competitors. Though being the first in bringing in new technologies, Dell has to be swifter in updating new things to its customers to gain more reputation in the market.

The innovative team of Dell not only focuses on the production of PC's and Laptops but has extended its production interest in various other electronic devices.

“ Computer maker Dell is showing the world how to run a business in the Cyber age” (source: Business Week)

Thus, Dell has effectively used its Organizational Objectives and has maximized its production and achieved the Top position in the world of PC's.