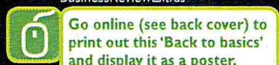
Ten things you need to know about objectives

BusinessReviewExtras



Ian Marcousé provides a framework that you can base your revision around

1 Objectives

These are specific goals that can help galvanise staff towards meeting the aims of the business. They may be SMART (specific, measurable, achievable, realistic and time-bound).

Example: in 2007 John Lewis planned to double its sales revenue in the next 10 years. By 2014 turnover had risen from £6.4 billion to £9 billion.

Advantage: if the directors can agree on the objectives and how to generate the resources needed, e.g. extra capital, this should help to ensure success.

Disadvantage: the objective may be faulty — why would an employee cooperative want growth? In 2014 John Lewis 'partnership' bonuses were set at 15% of salary compared with 18% in 2007, but the chairman's pay was up from £830,000 to £1,520,000.

2 Big hairy audacious goals (BHAGs)

A long-term vision so challenging that it can help achieve remarkably ambitious objectives.

Example: when Mohammed al-Fayed bought Fulham FC he wanted it to become 'the Manchester United of the South'. Perhaps this helped take Fulham from the third tier of English football to the Premier League, where it stayed for 13 years.

Advantages: a BHAG may help break a business out of comfortable mediocrity.

Disadvantages: some staff might feel that the BHAG is too audacious to be taken seriously. Such people might be motivated more by a SMART objective.

3 Maximising corporate standing

Making sure that the reputation of the business is as high as possible among all stakeholders.

Example: Apple in the period 2006–13, when customers' love was only exceeded by the love of the shareholders (and the retailers and suppliers).

Advantage: an aura can surround a company with high market standing, making stakeholders proud to be involved (even if, like customers, they're handing over large sums of money).

Disadvantage: the same aura can lead to complacency, as with Marks and Spencer a decade or two ago and, perhaps, John Lewis and Waitrose today.

4 Maximising sales

Focusing on outselling rivals in the expectation that profits will boom later, once competition has died down.

Example: Amazon, Facebook and Ocado all struggled with operating losses in their early years, as they focused on building up market size and market share, i.e. sales.

Advantage: staff like to focus on sales, as profit implies a tighter focus on costs.

Disadvantage: there is always a risk that the high sales will fail to turn into profit, possibly because the sales are at low profit margins.

5 Ethics

Ethical behaviour requires staff to prioritise morality over profit. It is especially hard to prioritise ethics when challenging financial goals are in sight.

Example: in early 2013 a whistleblower within the staff at UK pharmaceutical giant GSK alleged systematic corruption by the company in its dealing with doctors in China. That is a risky thing for an employee to do, but showed ethical behaviour.

Advantage: a company pursuing high market standing might persuade staff to act ethically at all times.

Disadvantage: the achievement of objectives is often bound up in bonus payments, making ethical behaviour costly for employees and their families.

6 Financial incentives

In middle management and — especially — in the boardroom, the achievement of financial targets can trigger large bonus payments.

Example: in 2013 the outgoing boss of British Gas was criticised in the media for his £1.5 million bonus for achieving operational performance targets in a year in which 'millions were suffering fuel poverty'.

Advantage: focusing on achieving targets can help businesses compete effectively, to the benefit of the staff, suppliers and shareholders.

Disadvantage: too much focus on time-constrained financial targets can distort behaviour, encouraging staff to cut corners for the sake of this year's bonus.

7 Objectives can be wrong

There is a temptation to blame strategy for 'failing to achieve the objectives' without questioning whether the objectives were wrong anyway.

Example: Peter Marks became chief executive of the Co-operative in 2000 and set a growth objective that resulted in the disastrous takeovers of the Somerfield grocery chain and the Britannia building society.

Advantage: it is important to question whether bosses have set the right objectives.

Disadvantage: senior managers can resent it when staff question a company's new goals.

8 Profit maximisation

Extracting as great a surplus of revenue over costs as is possible in the short term.

Example: a company focusing on an impending flotation would work to maximise current profits to maximise the selling price for the shares about to be sold to the public, e.g. *Candy Crush Saga* maker King Digital Entertainment floated at the peak of the game's success in early 2014.

Advantages: maximising revenues and/or minimising costs can focus managers on maximising short-term efficiency.

Disadvantage: short-term profit maximisation can come at the cost of the long-term health of the business.

9 Short term vs long term

Short-term objectives cover the period within which it is not possible to achieve fundamental strategic change. Long-term objectives cover the period when strategic changes can happen.

Example: for several years Tesco set the objective of breakeven for its loss-making US operation. That was a short-term objective before the decision to close the business down was taken in 2013.

Advantage: short-term objectives can galvanise staff, who appreciate the possibility of achieving something within a psychologically motivating timescale such as 1 year.

Disadvantage: short-term objectives can easily turn into short-term thinking if the company keeps setting a series of short-term goals instead of thinking about the future.

10 Survival

When times get tough, all long-term considerations can be set aside to ensure the business can withstand short-term trading or financial problems.

Example: in 2014 there was a 5-month strike by platinum miners in South Africa, due to gross income inequalities between workers and managers. The mining companies had to dig in to survive after $2.25 billion of revenue losses.

Advantage: a 100% focus on survival can mean that new cost-saving measures emerge from the workforce, which can improve long-term competitiveness.

Disadvantage: focus on survival might lead to the short-changing of customers or workers, endangering the corporate image.

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