international operations from the present 12 per cent to 20 per cent.

The business model of Dabur is based on pushing through high growth parameters, in the range of 10 to 15 per cent annually, in the core domestic FMCG businesses in the consumer care division and even higher growth rates of 25 to 30 per cent annually from businesses outside consumer care.

The strategies adopted are a combination of internal growth and external growth through acquisition that it terms as organic and inorganic growth respectively.

Generally, Dabur has performed well except in cases where it had to deal with tough competition in the intensely competitive consumer goods in India. Analysts say that the company has perhaps been eyeing too many divergent new product categories over the years.

Dabur's strategy for the next few years seems to be: growth through domestic and international acquisitions, launching new products and penetrating deeper into rural Indian markets.

In the near future, Dabur will have to decide whether it wishes to be a pure herbal brand or a leading FMCG player, neither of which it can claim to be with conviction today.[1]

Like individuals, organisations too have their dreams and aspirations that they desire to attain. There are so many different ways in which organisations such as Dabur express their aspirations for the future. Strategic intent is the term we choose here to express those aspirations. As you will soon read, there is an elaborate hierarchy of strategic intent, having many levels at which organisations state what they wish to achieve.

2.1 STRATEGIC INTENT — Hamel & Prahalad

By strategic intent we refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of a vision and mission statement for the organisation as a corporate whole. At the business level of firms, these could be expressed as the business definition and business model. When stated in precise terms, as an expression of aims to be achieved operationally, these may be the goals and objectives. Here we take the position that strategic intent lays down the framework within which firms would operate, adopt a predetermined direction and attempt to achieve their goal. But the term 'strategic intent' has a definite meaning in strategic management. Let's first see the meaning and some associated concepts before we learn about the different constituents of the hierarchy of strategic intent.

Understanding Strategic Intent

Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisation: an obsession of having ambitions that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation, while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this: 'On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress.... At the same time, strategic intent is more than simply unfettered ambition..... The concept also encompasses an active management process that includes: focusing the organisation's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations'.[2]

Hamel and Prahalad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent—as evident from their pathbreaking article published in 1989 in the *Harvard Business Review*—seems to have been proposed by them to explain the

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lead taken by the Japanese firms over their American and European counterparts. Yet, strategic intent has wider implications and carries a lot of meaning for the strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global leadership, can be found in the Indian context too.

Business Today, in a 1998 survey of 50 family business houses, ranked highly the B.K. - K. M. Birla group, Lalbhai group, Essar group of Ruias, Hero group of Munjals, Ranbaxy and Reliance group of Ambanis (before it split into the Mukesh and Anil Ambani groups) on the criterion of strategic intent. These groups were considered to be globally competitive, global/local players. For instance, the late Dhirubhai Ambani of the Reliance group is credited with having a strategic intent of being a global leader in his field of activity by being the lowest-cost producer of polyester products—a status achieved by a relentless pursuit of scale, vertical integration and operational effectiveness. Likewise, the late Parvinder Singh of the Ranbaxy group is considered as a visionary industry leader who worked hard towards the creation of a globally competitive, research-based pharmaceutical giant.[3]

It is not as if only the family business groups headed by entrepreneurs exhibit a high propensity for strategic intent. The professionally-managed and multinational subsidiary sectors too have their heroes. Xerox India's strategic intent is 'to become the leader in the document market in India by helping improve the customer work processes, positively impacting productivity and costs while digitally empowering them to transform their work. In other words "helping people find better ways to do great work."'[4]

Overall, strategic intent points to what a firm should set out to achieve. The understanding of strategic intent is aided by three important concepts that we see next.

Concepts of Stretch, Leverage and Fit

Subsequent to the idea of strategic intent, Hamel and Prahalad added the dual concepts of 'stretch' and 'leverage'. Stretch is 'a misfit between resources and aspirations'.[5] Leverage refers to concentrating, accumulating, complementing, conserving and recovering resources in such a manner that the meagre resource base is stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of 'fit' that means positioning the firm by matching its organisational resources to its environment.

The strategic fit is central to the strategy school of positioning (see chapter 1 for an explanation of the different schools of thought on strategy) where techniques such as the SWOT analysis are used to assess organisational capabilities and environmental opportunities. Strategy then becomes a compromise between what the environment has got to offer in terms of opportunities and the counter offer that the organisation makes in the form of its capabilities. The ideas of stretch and leverage belong appropriately to the learning school of strategy where the capabilities are not seen as constraints to achieving and the environment is perceived not as something which is considered as given but as something which can be created and moulded. You would appreciate that the idea of strategic intent could work in both the cases, though it might be perceptively different in terms of the levels at which the aspirations are set. Under fit, the strategic intent would seem to be more realistic; under stretch and leverage it could be idealistic. Yet, in both the cases, it is essentially a desired aim to be achieved.

Exhibit 2.1 presents information related to Tata Steel's strategic intent. Note how the company lays down different elements of its strategic intent in terms of its vision, mission and strategic goals, leading to the strategies the organisation plans to adopt.

Reiterating the position that we took in the beginning of this chapter, we consider strategic intent in a broader sense, as a hierarchy of intentions ranging from a broad vision, through mission and business definition, down to specific objectives and goals. Vision is at the top level of the hierarchy of strategic intent and that is what we try to understand in the next section.

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Exhibit 2.1 The Strategic Intent of Tata Steel

The Tata Group is known for its ethos of aligning business opportunities with national building. One of India's most reputed companies from the Tata Group, set up in 1907, Tata Steel is Asia's first and India's largest private sector steel company. Tata Steel is among the lowest cost producers of steel in the world. Its strategic intent is expressed in terms of a hierarchy of vision, mission, strategic goals and strategies.

Vision 2007

- To seize the opportunities of tomorrow and create a future that will make it an economic value added positive company
- To continue to improve the quality of life of our employees and the communities we serve
- Revitalise the core business for a sustainable future
- Venture into new businesses that will own a share of our future
- Uphold the spirit and values of Tatas towards nation building.

Mission statement

Consistent with the vision and values of the founder Jamsetji Tata, Tata Steel strives to strengthen India's industrial base through the effective utilisation of staff and materials. The means envisaged to achieve this are high technology and productivity, consistent with modern management practices.

Tata Steel recognises that while honesty and integrity are the essential ingredients of a strong and stable enterprise, profitability provides the main spark for economic activity.

Overall, the Company seeks to scale the heights of excellence in all that it does in an atmosphere free from fear and thereby reaffirms its faith in democratic values.

Strategic Goals

- Move from commodities to brands
- EVA positive core business
- Continue to be lowest cost producer of steel
- Value creating partnerships with customers and suppliers
- Enthused and happy employees
- Sustainable growth

Strategy

- Manage knowledge
- Outsource strategically
- Encourage innovation and allow the freedom to fail
- Excel at TBEM: The Tata Business Excellence Model
- Unleash people's potential and create leaders who will build the future
- Invest in attractive new businesses
- Ensure safety and environmental sustainability
- Divest, merge and acquire

Source: Adapted from information on website of Tata Steel at: *http://www.tatasteel.com/company/vision2007.asp*, Retrieved December 31, 2006.

2.2 VISION

Aspirations, expressed as strategic intent, should lead to tangible results, otherwise they would just be castles in the air. Those results are the realisation of the vision of an organisation or an individual. It is what ultimately the firm or a person would like to become. For instance, some of you, say in 10 years or may be even earlier, would like to become general managers managing an SBU in a large, diversified multinational corporation. Or some others among you would like to believe that you can be an entrepreneur owning your own

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VISION — Meaning, Definition, benefit, process

company dealing with IT services, employing cutting-edge technology to serve a global clientele, in 10–15 years. A firm thinks like that too. Vision, therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

The Nature of Vision

Vision is dreamt of more than it is articulated. This is the reason why it is difficult to say what vision an organisation has unless it is stated explicitly. Sometimes, it is not even evident to the entrepreneur who usually thinks of the vision. By nature, it could be hazy and vague, just like the dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. Often, it is from the actions that the vision could be derived. Henry Ford wished to democratise the automobile when he visualised that an affordable vehicle must be available for the masses. Walt Disney probably wanted to make people happy. Jamshetji Tata dreamt of a self-reliant India in steel making. Narayana Murthy wants to demonstrate that running a business is legally and ethically possible in India through entrepreneurship. All these visionaries had a vision that might have gradually become clear as they took actions to materialise their dreams. Exhibit 2.2 tells us what a vision should be and what it shouldn't be.

Exhibit 2.2 What a vision should and shouldn't be

A vision should be:

- ✓ An organisational charter of core values and principles
- ✓ The ultimate source of our priorities, plans and goals
- ✓ A puller (not pusher) into the future
- ✓ A determination and publication of what makes us unique
- ✓ A declaration of independence

A vision shouldn't be:

- × A 'high concept' statement, motto or literature or an advertising slogan
- × A strategy or plan and a view from the top
- × A history of our proud past
- × A 'soft' business issue
- × Passionless

Source: Adapted from Lucas, J. R., 'Anatomy of a vision statement', *Management Review* Feb 1998, 87(2), pp. 22-26.

Defining Vision

Vision has been defined in several different ways. Kotter (1990) defines it as a "description of something (an organisation, a corporate culture, a business, a technology, an activity) in the future".[6] El-Namaki (1992) considers it as a 'mental perception of the kind of environment an individual, or an organisation, aspires to create within a broad time horizon and the underlying conditions for the actualisation of this perception'.[7] Miller and Dess (1996) view it simply as the 'category of intentions that are broad, all-inclusive and forward thinking'.[8] The common strand of thought evident in these definitions and several others available in strategic management literature, relates to vision being future aspirations that lead to an inspiration to be the best in one's field of activity.

The Benefits of Having a Vision

Parikh and Neubauer (1993) point out the several benefits accruing to an organisation having a vision.[9] Here is what they say:

- Good visions are inspiring and exhilarating. (1)

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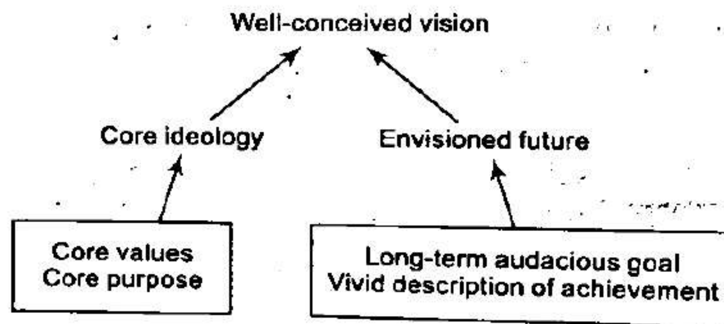
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
- Good visions help in the creation of a common identity and a shared sense of purpose.
- Good visions are competitive, original and unique. They make sense in the marketplace as they are practical.
- Good visions foster risk taking and experimentation.
- Good visions foster long-term thinking.
- Good visions represent integrity: they are truly genuine and can be used to the benefit of people.

Next, we learn about envisioning: the process of creating a vision.

The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Porras (1996) have to say about it.[10] According to them, a well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable as it passes through the vicissitudes of vectors such as technology, competition or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organisation) and core purposes (an organisation's reason for being). The envisioned future too consists of two components: a 10–30 years audacious goal and vivid description of what it will be like to achieve that goal. The process of envisioning is shown in Exhibit 2.3. Many organisations mention terms such as corporate philosophy, corporate values and the like, that are used to convey what they stand for and what principles guide them in strategic and day-to-day decision-making. These terms are all part of an effort to state what the organisation's vision is.

Exhibit 2.3 The process of envisioning



Based on ideas in J. Parikh & F. Neubauer, 'Corporate Visioning' *International Review of Strategic Management*, Vol. 4, Ed: D. E. Hussey, West Sussex, England: John Wiley & Sons, 1993, pp. 109–111.

From vision, we now move on to the second level of strategic intent, that is the mission.

2.3 MISSION

While the essence of vision is a forward-looking view of what an organisation wishes to become, mission is what an organisation is and why it exists.

Several years ago, Peter F. Drucker raised important philosophical questions related to business: what is our business? what will it be? and what it should be ?[11] These three questions though simply worded, are, in reality, the most fundamental questions that any organisation can put to itself. The answers are based on an analysis of the underlying need of the society that any organisation strives to fulfil. The satisfaction of that need is, then, the business of the organisation.

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Understanding Mission

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement which defines the role that an organisation plays in the society. It refers to the particular needs of the society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of the society, but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

Defining Mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose of existence of an organisation.

Thompson (1997) defines mission as the 'essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business(es) it is in and the customers it seeks to serve and satisfy'.[12] Hunger and Wheelen (1999) say that mission is the 'purpose or reason for the organisation's existence'.[13]

At present, there is not much difference of opinion about the definition of mission. Yet, one finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic intent.

How are Mission Statements Formulated and Communicated?

Most organisations derive their mission statements from a particular set of tasks they are called upon to perform in the light of their individual, national or global priorities. Several public sector organisations, set up in India during the fifties and sixties, owe their existence to the vision of Jawaharlal Nehru, the first prime minister, who enunciated and tirelessly worked for the national aim of building a strong and self-reliant India by laying the foundations of many of our basic infrastructural industries. Mission statements, whether derived from set priorities or not, could be formulated either formally or informally.

Usually, entrepreneurs lay down the corporate philosophy which the organisation follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur's actions. Generally, an entrepreneur has a perception of the type of organisation that he wants his company to be. Mission statements could be formulated on the basis of the vision that the entrepreneur decides in the initial stages of an organisation's growth.

Major strategists could also contribute to the development of a mission statement. They do this informally, by lending a hand in the creation of a particular corporate identity, or formally, through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement, both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement. B.N. Sinha, managing director of the Scientific Instrument Company Ltd, who took the help of a management consultant in deciding his company's mission and purpose, describes the process of formulating a mission '....as a starting point, we (i.e. the company managers, consultant and the chief executive) spent quite a bit of time on identifying our "mission" of business... After a lot of discussion, we identified our mission as follows: to be a vibrant organisation set on contributing to the scientific and technical progress of the country; keeping its customers and employees satisfied in terms of service and work reward; giving adequate returns on investment to the shareholders.'[14]

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Here are a few more examples of how organisations formulated and communicated their mission statement.[15]

- *Eicher Consultancy*: It was born in 1991, with a mission statement. It decided to have an ambitious statement directly addressed to the well-being of the country.
- *HCL*: The environment for computer companies had became quite competitive by 1991. A need was felt to provide a feeling of oneness in the organisation. A core management team assessed the internal strengths and designed a customer-centric mission statement for team building, mutual trust, internal customer-server equations and empowerment.
- *Marico Industries*: Its first mission statement was designed in 1990, triggered by a divestment of its consumer division. It wanted to be seen as a multiproduct, consumer-oriented company. It took about 7 months to evolve a common, shared purpose. The CEO outlined the goals and aspirations after hectic consultations with senior management. A 3-day workshop of managers prepared a four-page mission statement. A need was felt in 1995 to rewrite the mission statement in the light of changed circumstances.
- *Ranbaxy Laboratories*: The company realised that competition in the pharmaceuticals industry was becoming tough and it could not survive just by selling generic drugs. In 1993, after a year of deliberations on future directions, strategies involved and past experience, the CEO enunciated the mission and values. Later measures were taken to communicate it extensively throughout the company, down to the level of workers.
- *Unit Trust of India*: An extensive corporate planning exercise was undertaken in 1992. UTI's mission statement was formulated as a part of that exercise.

A study by Boston-based Bain and company revealed that mission statements are one of the most popular management tools used by companies.[16] The trend of defining a mission statement has become quite popular in India too. Some years ago, the All India Management Association (AIMA) commissioned a nationwide study to find out what management techniques and tools Indian companies are likely to employ. *Business Today* reported the AIMA study stating that 72 per cent of the total 160 companies surveyed had a written mission statement. Among these, 91 per cent were giant companies, 78 per cent were large, 83 per cent were medium-sized and 55 per cent were small companies.[17]

Communicating the mission statement is as important as formulating it well. This is so since a positive relationship exists between the performance of a company and the number of methods used to communicate and disseminate a mission statement.[18] High visibility of the mission statements posted on multiple locations, is an effective tactic to aid mission familiarity and recognition by employees. There are several methods to communicate the mission statement within the organisations,[19] such as annual reports, posters/plaques, employee manuals, company information kits, word-of-mouth publicity, seminars and workshops, newsletters and advertisements.

A mission statement, once formulated and communicated, should serve the organisation for many years. But a mission may become unclear as the organisation grows and adds new products, market and technologies to its activities. Then the mission has to be reconsidered and re-examined to either change or discard it and evolve a fresh statement of the organisational mission. An assessment of how effective a mission statement is can be done by checking out its characteristics.

Characteristics of a Mission Statement

Organisations legitimise themselves by performing some function that is valued by the society. A mission statement defines the basic reason for the existence of the organisation. Such a statement reflects the corporate philosophy, identity, character and image of an organisation. It may be defined explicitly or it could be deduced from the management's actions, decisions or the chief executive's press statements. When explicitly

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defined, it provides enlightenment to the insiders and outsiders about what the organisation stands for. In order to be effective, a mission statement should possess the following seven characteristics.

1. It should be Feasible A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable—its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission. In the 1960s, the U.S. National Aeronautics and Space Administration (NASA) had a mission to land on the moon. It was a feasible mission that was ultimately realised.

2. It should be Precise A mission statement should not be so narrow as to restrict the organisation's activities, nor should it be too broad to make itself meaningless. 'Manufacturing bicycles' is a narrow mission since it severely limits the organisation's activities while 'mobility business' is too broad a term as it does not define the reasonable contour within which an organisation could operate. Observe how Hero Cycles defines its mission: "It's our mission to strive for a synergy between technology, systems and human resources, to produce products and services that meet the quality, performance and price aspirations of our customers. While doing so, we maintain the highest standards of ethics and societal responsibilities."

3. It should be Clear A mission should be clear enough to lead to action. It should not just be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements (sometimes referred to as the corporate positioning statement) but probably they do so for emphasising their identity and character. For example, *India Today* saw itself as 'the complete news magazine' and now visualises its mission as 'making sense of India.' The Administrative Staff College of India considers itself as 'the college for practising managers'. Better still is the HUL's mission to 'add vitality to life' leading to various strategic actions of being the largest consumer goods company in India.

4. It should be Motivating A mission statement should be motivating for members of the organisation and of the society and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution. Bank of Baroda's strategic vision 2010, includes the mission of 'pursuing best global practices for delivering added value to customers' in order to achieve its vision of becoming a "technology-enabled customer-centric financial services organisation".

5. It should be Distinctive A mission statement which is indiscriminate is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing scooters that would provide value for money, for years, it creates an important distinction in the public mind. Bajaj Auto adopted its popular mission of providing 'value for money, for years' and now believes in 'inspiring confidence'.

6. It should Indicate the Major Components of Strategy A mission statement, along with the organisational purpose should indicate the major components of the strategy to be adopted. The mission of HCL Infosystems is: 'To provide world-class information technology solutions and services to enable our customers to serve their customers better'. It provides a clear indication of the emphasis in the strategies of the company on providing cutting edge technology and customer-orientation.

7. It should Indicate how Objectives are to be Accomplished Besides indicating the broad strategies to be adopted, a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. LG Electronics has its mission of 'becoming '2 by 10', that is, double the sales

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volume and profit by year 2010' through setting its mid-term and long-term goal to rank among the top three electronics, information and telecommunication firms in the world by 2010.

In day-to day decision-making, managers are not concerned about survival and, therefore, do not actively think about their organisation's mission for society. Thus, a mission statement becomes an ideology that is occasionally used for legitimisation. But for strategic decision-making, it is important to consider the mission in each phase of the strategic management process.

A helpful approach to defining as well as refining a mission statement is to define the business itself.

2.4 BUSINESS DEFINITION

Understanding business is vital to defining it and answering the question 'What is our business?' It could also be a pointer to answers to questions such as: 'What will it be?' and 'What should it be?' Vision and mission statements can use the ideas generated through the process of understanding and defining business.

Defining Business

The wrist watch has traditionally been considered to have just one function — to display the time. Today, it is becoming a fashion accessory, which might also mean that you need to have more than one watch. It is a reflection of one's personality and status; it makes a statement. High-value, rare watches could also be pieces of art. Exhibit 2.4 illustrates the many options available to a company in the timekeeping business.

Exhibit 2.4 Understanding the business of timekeeping

An illustrative diagram, like the one shown here, can be helpful in understanding business. In this diagram, we have attempted to relate societal needs to the business of timekeeping.

Each successive step provides alternative ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples.

- Wristwatches could be of different types, e.g. ladies, men, children and sports watches. Ladies wristwatches could be either utility or ornamental watches.
- Other types of watches could be time pieces, wall clocks and pocket watches.
- Other products could be an hourglass or a sundial.
- Specialty watches could be video timers, calculator watches and car clocks.
- Consumer non-durables could be time-punching machines and stop watches.
- Services could be telephone or teletext time services.
- Other organisations which roughly meet the timekeeping needs could be, for instance, a church bell chiming at appointed hours or a call to the faithful from mosques.

All the above options, or their combinations, lead to the satisfaction of the timekeeping needs of the society. Four other variables are useful in understanding the business of timekeeping. These are:

1. Functions which watches can perform, such as providing the time, day, date and direction.
2. Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories and presenting them as gift items.
3. End usages like direct use by customers and indirect use, as sub-assemblies in the form of watch and clock movements, by industry.
4. Technology used based on mechanical, quartz digital or quartz analog manufacturing.

All the above options and variables are, however, relevant to the current 'state of the art'. Timekeeping business could radically change if a breakthrough occurs any time in the future. For instance, if it could somehow be possible to embed sensors in the human brain that enable a person to just *know and feel* the time rather than *finding time by looking* at a watch, timekeeping could become just another neurological function. The implications of such a breakthrough for society and business are exciting. Naming just two, we could say that visually-

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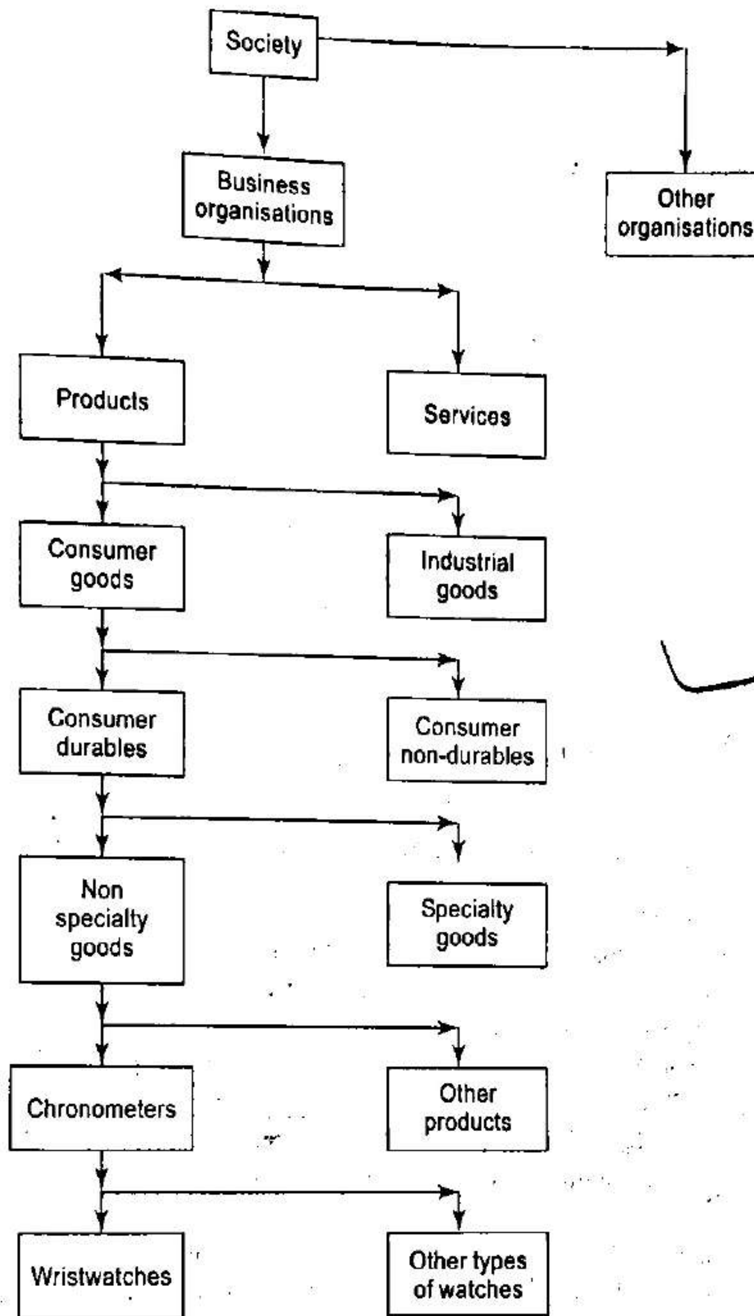
Mean, Dimensions, level



challenged persons could benefit a lot by such a technological advancement and the business of timekeeping would never be the same: all timekeeping equipment that we use today could face the risk of becoming redundant. The business of timekeeping, is therefore, certainly not making more, better, sophisticated and a variety of watches but providing the means—whatever they might be—to simply know the time.

Drawing an example from Exhibit 3.6, it can be said that a particular company providing only ladies' wristwatches of utility and ornamental types, using the quartz analogue technology, could define its business in one way. Another company, a government supplier, may choose to make mechanical wall clocks. Both the companies are in the timekeeping business but they cater to different customer groups, provide different customer functions and use alternative technologies.

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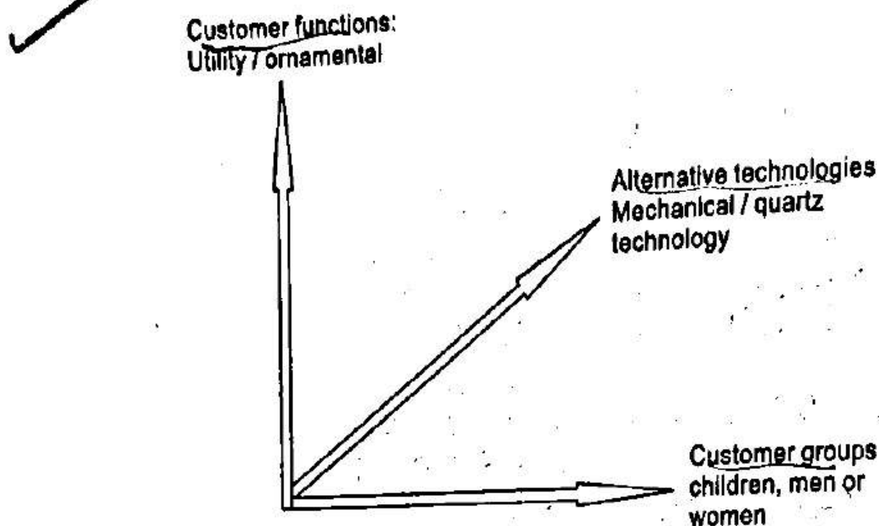
ABELL

Dimensions of Business Definition

Derek Abell, in a path breaking analysis, suggests defining a business along the three dimensions of customer groups, customer functions and alternative technologies. Customer groups relate to 'who' is being satisfied, customer needs describe 'what' is being satisfied and alternative technologies means 'how' the need is being satisfied.[20] Exhibit 2.5 presents a diagrammatic view of these three dimensions.

Exhibit 2.5 Abells' three dimensions for defining the business of a watch company



Based on: D.F. Abell, *Defining the Business: The Starting Point of Strategic Planning*, Englewood Cliffs, N.J. Prentice-Hall, 1980.

Customer groups are created according to the identity of customers. Customer functions are based on what the products or services provide for the customers. Alternative technologies describe the manner in which a particular function can be performed for a customer.

Applying Abell's three-dimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

1. Customers groups could be individual customers or industrial users.
2. Customer functions could be finding time, recording time, using watches as a fashionable accessory, a gift item or a piece of art.
3. Alternative technologies could be the mechanical, quartz digital and quartz analogue types.

Such a clarification helps in defining business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation and suggest an appropriate organisational structure. A watch manufacturer who makes ladies watches of the utility type could extend her business definition along the customer dimension and make ornamental watches also. She could also diversify further by moving into the manufacture of wall clocks. Having decided to manufacture ornamental ladies watches, she would have to effect changes in marketing and other functional policies. If utility watches were being made on a production-to-stock basis, ornamental watches may require a production-to-order system of manufacturing. Technological choice will vary from making mechanical hand-wound watches to making battery-operated quartz digital watches, which are two entirely processes. We could, of course, go on pointing out various other implications of defining a business along the three dimensions. In sum, we observe that the model provides powerful insights into understanding and defining a business.

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Levels at which Business could be Defined

Like strategy, business could be defined at the corporate or SBU levels. A single-business firm is active in just one area, so its business definition is simple. A large conglomerate, operating in several businesses, would have a separate business definition for each of its businesses. Rather, as Hill & Jones (1998) suggest, a diversified company's business is to manage a collection of businesses. The important question here is how the corporate business adds value to the constituent businesses of that company.[21]

At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions and alternative technologies. A highly diversified company organised on a divisional basis could benefit by having a business definition covering all the three dimensions. Each division could again have a more accurate business definition at the SBU-level. For example, Voltas Ltd., a Tata group company operating in nine businesses, broadly performs the customer functions of trading and manufacturing a large variety of items from air-conditioning, refrigeration and engineering products, catering to two broad customer groups of individual and institutional customers and using diverse technologies for manufacturing a broad range of products from textile machinery to chemicals.

When a company takes up activities outside the domain of its business definition, it generally faces the accompanying risk of adding new businesses, divisions or products unrelated to its present activities and at variance with its corporate identity. The crisis of identity is a serious problem which results either in inefficiency or ineffectiveness. On the other hand, if the various acquisition, growth and diversification plans of a company are linked through a business definition, it results in a considerable amount of synergy (more commonly known as 'the two plus two is equal to five effect'). One or more of the three dimensions of business definition could become the fulcrum for growth strategies. For instance, acquisition or diversification could be guided by whether the acquired or new entity fits into the overall business definition. LG India is guided by the health platform in positioning its products – air conditioners that do not just cool but discharge fresh air, televisions screens that prevent eye strain or refrigerators that offer anti-bacterial benefits - in a tough and competitive fast moving consumer goods market. Health, for LG, is the customer function offered. Similarly, serving the same customer groups or capitalising on the same technology could become the basis for future growth strategies. Thus, business definition offers unique insights to companies operating in competitive markets where the customer is an important external stakeholder of the firm.

The significance of Abell's approach to defining business lies in it being a marketing- and customer-oriented approach rather than a product-oriented approach. Yet, product-orientation is also important, as we see next.

The Product/Service Concept

Like the business definition, an explicit product/service concept could have far reaching implications for strategic management. *A product/service concept is the manner in which a company assesses the user's perception of its product or service.* Such a perception is based on how the product or service provides functions that satisfy customer needs. Consider the examples given below where companies define their product/service concepts and what implications such definitions have.

- Bhadrachalam Paperboards Ltd. recognised paper as a product and not as a commodity. As a result of this, it was able to consider the productivity of its customers and make tailor-made products for them. In the process, it came in direct contact with its customers rather than with the wholesale agents, thus defying the traditional way in which the paper business operates.
- HCL Ltd. perceived the computer not as a sophisticated awe-inspiring machine but as an everyday commodity. Such a product concept prompted it to advertise the computer as a consumer durable available through an innovative hire-purchase scheme.

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- Motorola wished to make the mobile phone not just a device for making a phone call but offering 'seamless mobility', making it possible to perform a variety of functions such as pay bills, unlock car, buy tickets or use the mobile phone for personal identification.
- NIIT saw itself not as a computer training institution but as a service-providing organisation, seeking to understand and implement the concept of knowledge transfer across the gamut of information-technology-led human activity.
- Pearl Polymers visualised using polyethylene terephthalate containers not just as an industrial product for storing edible oil, but as containers for a modern kitchen creating a huge market for its Pearl Pet bottle and jars.

A product/service concept—carefully and innovatively defined—can prove to be of significant worth to strategists in different phases of strategic management. Mashelkar, former director general of the Council of Scientific and Industrial Research, poses the question whether companies should be concerned about which markets they should enter with which products or what skills, capabilities and technologies should they develop? In his view, the competitive advantage in a high-technology business increasingly depends on the underlying technical skills of the business rather than on particular products. Products are simply transient, intermediary mechanisms through which the markets derive value from the company and the company derives value from the market. As product life cycles become shorter in industry after industry, the skills life cycles become longer.[22] This is a subtle point and needs to be understood by strategic planners when they define the product/service concept.

An explicit business definition and product/service concept are powerful tools for strategic management. Another popular tool that has emerged is that of business model.

2.5 BUSINESS MODEL

The Internet boom and bust of the 1990s revitalised the term 'business model'. Though not expressing a novel thought, it has become quite a popular term now and is used frequently to express a number of ideas, among them 'creation and marketing of value' being the major theme. The success of Wal-Mart as a retailer, Google as a search engine, Dell Computers as an Internet-based marketer or Amazon.com as a virtual book seller is attributed to their respective business models.

Colloquially, business models are often expressed in the form of a question: how does the organisation make money? E-newspapers are able to offer free Internet editions on account of the online advertisement revenues they earn from the advertisers. A *kirana dukan* (provision store) owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit. Budget airlines share certain features such as e-ticketing, no-frills service and uniformity in the types of planes used. Each of these organisations is using a particular business model.

Formally, a business model could be defined as 'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.'[23]

Business models have an intimate relationship with the strategy of an organisation. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry, competing with each other, can rely on different models as a matter of strategic choice. Tata Consultancy Services adopts a traditional fixed-price, fixed-time business model, where payments by clients are based on time related milestones. Infosys and Wipro have a time and material business model where clients pay on an ongoing basis, depending on the amount of work done rather than the time elapsed.[24]

From the abstraction that strategies actually are, business models are down-to-earth prescriptions to implement the strategies. Strategies are not expected to answer the question: how to make money? Business model can enable us to do precisely that.

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Here are two examples to illustrate the concept of business model and its relations to an organisation's strategies.

Bharti Airtel's business strategy is to differentiate itself in India's highly competitive communications environment by ensuring customer delight through personalised customer service and accomplishing this through a highly cost-effective business model. It implemented this business model through a strategic alliance with Nortel India that hosts contact centre services for subscribers to Bharti's mobile services, as well as the broadband and fixed-line service. By doing so, Bharti frees itself from the day-to-day responsibilities associated with operating, maintaining and evolving its contact centre network, to focus on its core business. Nortel earns revenue on a per call basis on a 'pay as you go' business model and foresees opportunities of offering contact centre services to other clients. Enhancing customer service thus becomes a value proposition that seeks to differentiate Bharti from other telecommunication service providers in the competitive Indian market.[25]

Aptech Limited, a global learning solutions company, has several corporate social responsibility projects, among which is a multi-lingual basic IT literacy course called "Vidya" (education in Hindi), under which it has trained over 5,00,000 students. The traditional model of a computer education and training institute was a company-owned centre with computer labs and classrooms that required substantial investments. Aptech embarked on a franchise business model for the Vidya project. The transition from a company-owned centre model to a franchise model was driven by the need to avoid high capital investment and to leverage the franchisee's understanding of the local market. Aptech maintained control over the franchises through contractual obligations and supervision. Internationally, it has replicated the franchise model with country-level variations to suit the local requirements. Though the Vidya courses offer lower margin but they lead to higher revenues when students enrol in higher-level Aptech courses, thus allowing it to expand rapidly than otherwise would have been possible.[26]

The vision, mission, business definition, product/service concept and business model serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realise its vision and mission and achieve its strategic intent, any organisation will have to set goals and objectives to be pursued in the medium and short run. The next section deals with objectives and goals.

2.6 GOALS AND OBJECTIVES

Goals denote what an organisation hopes to accomplish in a future period of time. They represent the future state or outcome of effort put in now. A broad category of financial and non-financial issues are addressed by the goals that a firm sets.

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals that are generalised. In this manner, objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification. This way they are measurable and comparable. This fine distinction between goals as broadly stated aims and the objectives as specifically stated aims is not necessarily maintained in practice by organisations. As students of strategic management, we should however understand the subtle difference between goals and objectives.

Any organisation always has a potential set of goals. It has to exercise a choice from among these goals. This choice must be further elaborated and expressed as operational and measurable objectives. Exhibit 3.9 illustrates how a public sector company in India states its strategic and financial objectives.

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Exhibit 2.6 Objectives of Indian Oil Corporation

The Indian Oil Corporation is India's largest company and the highest ranked Indian company among the Fortune Global-500 companies. It has a long and varied set of objectives divided into what seem to be strategic objectives and financial objectives.

Strategic Objectives

- To serve the national interests in oil and related sectors in accordance and consistent with government policies.
- To ensure maintenance of continuous and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities and to provide appropriate assistance to consumers to conserve and use petroleum products efficiently.
- To enhance the country's self-sufficiency in oil refining and build expertise in laying of crude oil and petroleum product pipelines.
- To further enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.
- To create a strong research and development base in refinery processes, product formulations, pipeline transportation and alternative fuels with a view to minimising/eliminating imports and to have next generation products.
- To optimise utilisation of refining capacity and maximise distillate yield and gross refining margin.
- To maximise utilisation of the existing facilities for improving efficiency and increasing productivity.
- To minimise fuel consumption and hydrocarbon loss in refineries and stock loss in marketing operations to effect energy conservation.
- To earn a reasonable rate of return on investment.
- To avail of all viable opportunities, both national and global, arising out of the Government of India's policy of liberalisation and reforms.
- To achieve higher growth through mergers, acquisitions, integration and diversification by harnessing new business opportunities in oil exploration and production, petrochemicals, natural gas and downstream opportunities overseas.
- To inculcate strong 'core values' among the employees and continuously update skill sets for full exploitation of the new business opportunities.
- To develop operational synergies with subsidiaries and joint ventures and continuously engage across the hydrocarbon value chain for the benefit of society at large.

Financial Objectives

- To ensure adequate return on the capital employed and maintain a reasonable annual dividend on equity capital.
- To ensure maximum economy in expenditure.
- To manage and operate all facilities in an efficient manner so as to generate adequate internal resources to meet revenue cost and requirements for project investment, without budgetary support.
- To develop long-term corporate plans to provide for adequate growth of the Corporation's business.
- To reduce the cost of production of petroleum products by means of systematic cost control measures and thereby sustain market leadership through cost competitiveness.
- To complete all planned projects within the scheduled time and approved cost.

Source: Adapted from the Website of Indian Oil Corporation, *http://www.iocl.com/ourcompany_vision.aspx*, Retrieved January 4, 2007.

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Role of Objectives

Objectives play an important role in strategic management. We could identify the various facets of such a role as described below.

Objectives define the Organisation's Relationship with its Environment By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and the society at large.

Objectives help an Organisation pursue its Vision and Mission By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its vision and mission.

Objectives provide the Basis for Strategic Decision-making By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behaviour and, in this manner, help to coordinate strategic decision-making.

Objectives provide the Standards for Performance Appraisal By stating targets to be achieved in a given time period and the measures to be adopted to achieve them, objectives lay down the standards against which organisational as well as individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and their organisations are more likely to achieve them than those who do not specify their performance targets. The importance of the role that objectives play in strategic management could be aptly summed up in the truism: if one does not know where he has to go, any path will take him there.

Characteristics of Objectives

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

1. Objectives should be Understandable Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable by those who have to achieve them. A chief executive who says that 'something ought to be done to set things right' is not likely to be understood by his managers. Subsequently, no action will be taken or even a wrong action might be taken.

2. Objectives should be Concrete and Specific To say that 'our company plans to achieve a 12 percent increase its sales' is certainly better than stating that 'our company seeks to increase its sales'. The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.

3. Objectives should be Related to a Time Frame If the first statement given above is restated as 'our company plans to increase its sales by 12 percent by the end of two years', it enhances the specificity of objectives. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.

4. Objectives should be Measurable and Controllable Many organisations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered or staff turnover per year could be devised, it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular industry and in general.

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5. Objectives should be Challenging Objectives that are too high or too low are both demotivating and, therefore, should be set at challenging but not unrealistic levels. To set a high sales target in a declining market does not lead to success. Conversely, a low sales target in a burgeoning market is easily achievable and, therefore, leads to sub-optimal performance.

6. Different Objectives should Correlate with Each Other Organisations set many objectives in different areas. If objectives are set in one area, disregarding the other areas, such an action is likely to lead to problems. A classic dilemma in organisations and a source of inter-departmental conflict, is setting sales and production objectives. Marketing departments typically insist on a wider variety of products to cater to a variety of market segments, while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, trade-offs are required to be made so that different objectives correlate with each other, are mutually supportive and result in synergistic advantages. This is especially true for organisations which are organised on a profit-centre basis.

7. Objectives should be Set within Constraints There are many constraints—internal as well as external—which have to be considered during objective-setting. For example, resource availability is an internal constraint which affects objective-setting. Different objectives compete for the scarce resources and trade-offs are necessary for optimum resource utilisation. Organisations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organisation's ability to set and achieve objectives.

In sum, objectives-setting is a complex process. We will further examine a few issues relevant to objectives, in order to understand this complex process.

Issues in Objective-setting

There are many issues which have a bearing on different aspects of objective-setting. We deal here with six such issues.

1. Specificity Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals, while at the other, they might be specifically stated as targets. Many organisations state corporate as well as general specific, functional and operational objectives. Note that specificity is related to the organisational level for which a set of objectives has been stated. The issue of specificity is resolved through stating objectives at different levels and prefixing terms such as corporate, general and particular so that they serve the needs of performance and its evaluation.

2. Multiplicity Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of a single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower levels), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance) and nature (e.g. organisational or personal). Another issue related to multiplicity, is the number and type of objectives to be set. Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.

3. Periodicity Objectives are formulated for different time periods. It is possible to set long-term, medium-term and short-term objectives. Generally, organisations determine objectives for the long-and short-term. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain and are, therefore, stated in general terms. Short-term

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objectives, on the other hand, are relatively more certain, specific and comprehensive. One long-term objective may result in several short-term objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short term objectives which support continual profitability may be the target return on investment, profit margin, return on net worth, etc. computed on an yearly basis.

4. ***Verifiability*** Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantification. A definite way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified, but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as: to create a congenial working environment within the factory. In order to make such an objective verifiable, value judgement of informed experts—both insiders and outsiders—could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, etc. In sum, it can be said that the issue of verifiability could be resolved through the judicious use of a combination of quantitative and qualitative objectives.

5. ***Reality*** It is a common observation that organisations tend to have two sets of objectives: official and operative. Official objectives are those which the organisations profess to attain, while operative objectives are those which they seek to attain in reality. Probably, no one would be in a better position to appreciate the difference between these two objectives than a harried client of a public sector bank who, on being maltreated by an arrogant bank employee, looks up to find a poster of a smiling and beautiful girl with folded hands looking down at him. The poster carries the caption: 'Customer service with a smile'! Many organisations state one of their official objectives as the development of human resource. But whether it is also an operative objective depends on the amount of resources allocated to human resource development.

6. ***Quality*** Objectives may be both good as well as bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: 'To be market leader in our industry'. It is insufficient with respect to its measurability. To restate the same objective as: 'To increase market share to a minimum level of 40 per cent of the total with respect to Product A, over a period of the next two years and to maintain it thereafter' is a good objective since it is specific, relates to performance, is measurable and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting them. Determination of objectives is, therefore, a complex task. Further, two important questions need to be asked: what objectives are chosen for achievement and how they are determined. We attempt to answer the first question in the following subsection and the second in the next.

What Objectives are Set?

To put it straight, objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to be set in the eight vital areas of market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility.[27] A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factors which are supposedly vital for all

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types of organisations. But, in practice, organisations differ widely with regard to the objectives that they choose to set.

Research studies, based on survey of a large number of companies, too lead to a set of objectives that the companies determine for themselves. But even here, the list of objectives is more of a least common denominator rather than a true reflection of the objectives that the companies actually set for themselves. For illustrating this point, we consider one such study in the Indian context. Singh, who has studied 28 large companies, each having a turnover of more than Rs.50 crore at the time of the study, reports that the objectives were set in areas like:[28]

- profit (return on investment, return on shareholder's capital, net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);
- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

Another study of 14 Indian firms by Anderson and Lanen found that measures related to customer expectations and satisfaction, competitors' performance and internal information on process variations like quality measures, on-time delivery, unit product cost and product quality failure have become more important as objectives in post-reform India.[29] A survey of 60 large and medium-sized Indian manufacturing firms by Joshi, however, found an extensive use of financial measures such as 'return on investment', 'variance analysis' and 'budgetary control' in performance evaluation. It also found a moderate use of on-going suppliers' evaluation and customer satisfaction surveys and a minimal use of non-financial measures in performance evaluation.[30]

Despite apparently contradictory research results, things in the Indian business environment have been changing. During the pre-liberalisation period, the emphasis among the Indian corporate sector was on building assets and, therefore, size was of paramount importance. It was an insurance against competition. Indeed, for several years, Indian companies tended to rely on size till some smaller but well-managed companies showed the way. Post-liberalisation, the business environment also changed, where focus rather than unbridled diversification became the preferred strategic alternative.

Another crucial change has been the way project financing is done. There was an excessive reliance on debt rather than an equity. The capital market matured later, causing the companies to use measures that would more realistically reflect the situation within and outside the companies. Value addition gained significance and value-based management became the key theme of strategic thinking. It is in this milieu that we find traditional measures for objective-setting and performance measurement like return on sales, return on investment, return on capital employed, return on net assets and the like becoming partly redundant.

More recently, measures such as shareholder value, economic value added (EVA) and the market value added (MVA) have become more acceptable. Shareholder value is the present value of the anticipated future stream of cash flows from the business plus the value of the company if liquidated. EVA is value added to the shareholders by generating operating profits in excess of the cost of capital employed in the business. It is the residual income after charging the company for cost of capital provided by lenders and shareholders. Mathematically, it is after-tax profit less the total annual cost of capital. MVA measures the stock market's estimate of the net present value of a firm's past and expected capital investment projects.

Companies like Infosys Technologies and Hindustan Levers were early adopters of the value-based measures. Several firms routinely mention the EVA in their annual reports to demonstrate the extent to which they have been able to create shareholder value.

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A KPMG - *Business Standard* survey of the 1996 – 97(the time when such measures of performance were being introduced in the Indian corporate sector) performance of Indian companies on value-based parameters threw up interesting results. While companies like ONGC, Hindustan Levers, Bajaj Auto, Videsh Sanchar Nigam Ltd. and Bharat Petroleum were expectedly top scorers, others like Steel Authority of India, TISCO, L & T, Essar Steel, Indo Rama Synthetics, which are otherwise considered to be good companies, were the worst. Such is the change in the perception of performance when viewed from the shareholder value viewpoint.[31]

The value-based measures mentioned here will be referred to again when we take up the issue of performance measurement as they are basically measures of corporate performance.

For the present, consider the following examples of objective-setting by different types of organisations. We are not including the usual financial parameters used to judge performance, to provide you an idea of how the context could dictate the criteria for objective-setting.

- Two-wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in per cent, level of indigenisation achieved in per cent, average cost per vehicle and fuel efficiency achieved in kilometres per litre.
- Advertising agencies set objectives in terms of billings achieved in rupees per year.
- For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production, leading to capacity utilisation in per cent. Another operational measure is energy consumed per tonne of saleable steel.
- Insurance companies may set objectives in terms of the number of policies executed, sum assured and expense-income ratio. Social objectives could be measured in terms of the percentage of insurable population covered and an investment mix consisting of government securities, social schemes and corporate securities.
- Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and number of seats and berths available. Freight traffic is in terms of the volume of traffic handled expressed in weight and utilisation percent of wagons and locomotives.
- Hotels may set objectives in terms of the number of rooms available, occupancy rate and cost per room. Subjective measures could include maintaining the quality of hotel properties and the quality of customer service provided.

The question that now remains to be addressed is: how are these objectives formulated? The next subsection takes up this issue.

How are Objectives Formulated?

From the foregoing discussion, it is clear that an organisation needs to set objectives at different levels, of various types and for different time periods. Such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is: how are objectives formulated?

Glueck identifies four factors that should be considered for objective-setting. These factors as: *the forces in the environment, realities of the enterprise's resources and internal power relationships, value system of top executives and awareness in management of the past objectives of the firm.*[32] Here is a brief description of each of these factors.

The Forces in the Environment These take into account all the interests—sometimes coinciding but often conflicting—of the different stakeholders in an organisation. Each group of stakeholders has claims or expectations which have to be considered while setting objectives. It is important to note that the interests of

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the various stakeholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.

Realities of Enterprise Resources and Internal Power Relationships These mean that objectives are dependent on the resources capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources—both material and human—place restrictions on the objective-achieving capability of the organisation. Internal power relationships too have an impact on objectives in different ways. A dominant group of strategists such as the board of directors, or an individual strategist such as a chief executive, may wield considerable power so as to set objectives in consonance with their respective views. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.

The Value System of the Top Executive This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too. For example, entrepreneurial values may result in prominence being given to profit objectives, while a philanthropic attitude and values of social responsibility may lead to setting socially-oriented objectives.

Awareness by the Management Awareness of the past objectives may lead the organisation to a choice of objectives that has been emphasised in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or marginally deviates from it in the future. This happens because organisations do not depart radically from the paths that they have been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally, in an adaptive manner.

Keeping in view the four factors described above, we observe that objective-setting is a complex task which is based on consensus-building and has no precise beginning or end. Vision and mission provide a 'common thread' to bind together the different aspects of the objective-setting process, by providing a specific direction along which the organisation can move.

The binding together of the different levels of the hierarchy of strategic intent is facilitated by techniques such as the balanced scorecard that we discuss next.

Balanced Scorecard Approach to Objectives-setting

The performance management system called balanced scorecard, developed by Robert S. Kaplan and David Norton of Harvard Business School, seeks to do away with the undue emphasis on short-term financial objectives and seeks to improve organisational performance by focusing attention on measuring and managing a wide range of non-financial, operational objectives. Later, the system application was enlarged to include its usage as a comprehensive strategic planning technique. In doing so, the balance scorecard approach advocates a top-down approach to performance management, starting with strategic intent being expressed through the organisation, down to operationally relevant targets.[33] Exhibit 2.7 shows the balanced scorecard model.

The balance scorecard model requires an evaluation of organisational performance from four different perspectives.

Financial Perspective This perspective considers the financial measures arising from the strategic intent of the organisation. Examples of such measures are revenues, earnings, return on capital and cash flow.

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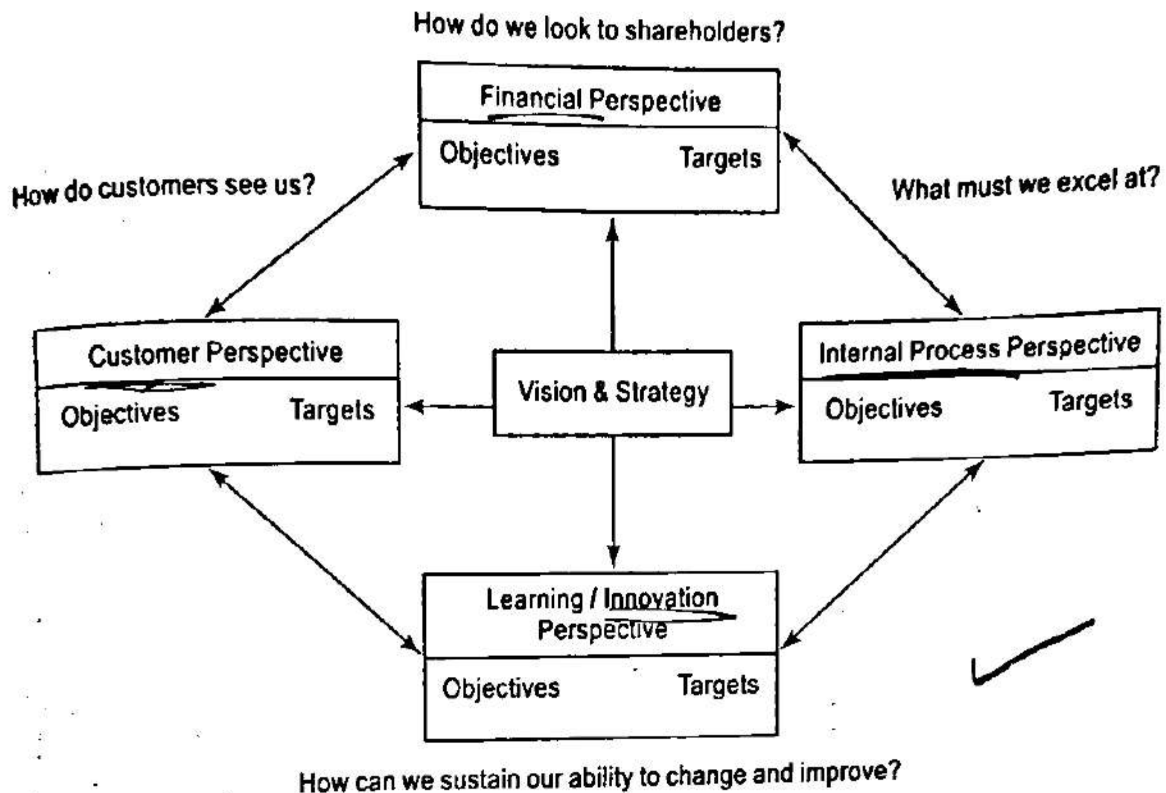
Exhibit 2.7 The Balanced Scorecard Model



Source: Based on R.S. Kaplan & D.P. Norton, *The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment*, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan & D. P. Norton, *The Balanced Scorecard: Translating Strategies into Action*, Boston, Harvard Business School Press, 1996.

Customers' Perspective This perspective measures the ability of the organisation to provide quality goods and services, effective delivery and overall customer satisfaction. Examples of such measures are market share, customer satisfaction measures and customer loyalty.

Internal Businesses Perspective Internal business processes are the mechanisms through which performance expectations are achieved. The internal businesses perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organisational objectives and customers expectations, organisations must identify the key business processes at which they must excel. Examples of such measures are productivity indices, quality measures and efficiency.

Learning and Growth Perspective This perspective focuses on the ability of the organisation to manage its businesses and adapt to change. In order to face the challenges of changes in the environment and customer expectations, organisations take on new responsibilities that require its employees to develop new skills and capabilities. Examples of such measures are morale, knowledge, employee turnover, usage of best practices, share of revenue from new products and employee suggestions.

Kaplan and Norton used the technique of strategy maps that provide a visual representation of the organisation's strategy. In such maps, the four perspectives were connected to each other in a 'cause and effect' fashion, thus making clear the relationship of all the strategic objectives to the strategic intent of the organisation. A typical strategic map is shown in Exhibit 2.8.

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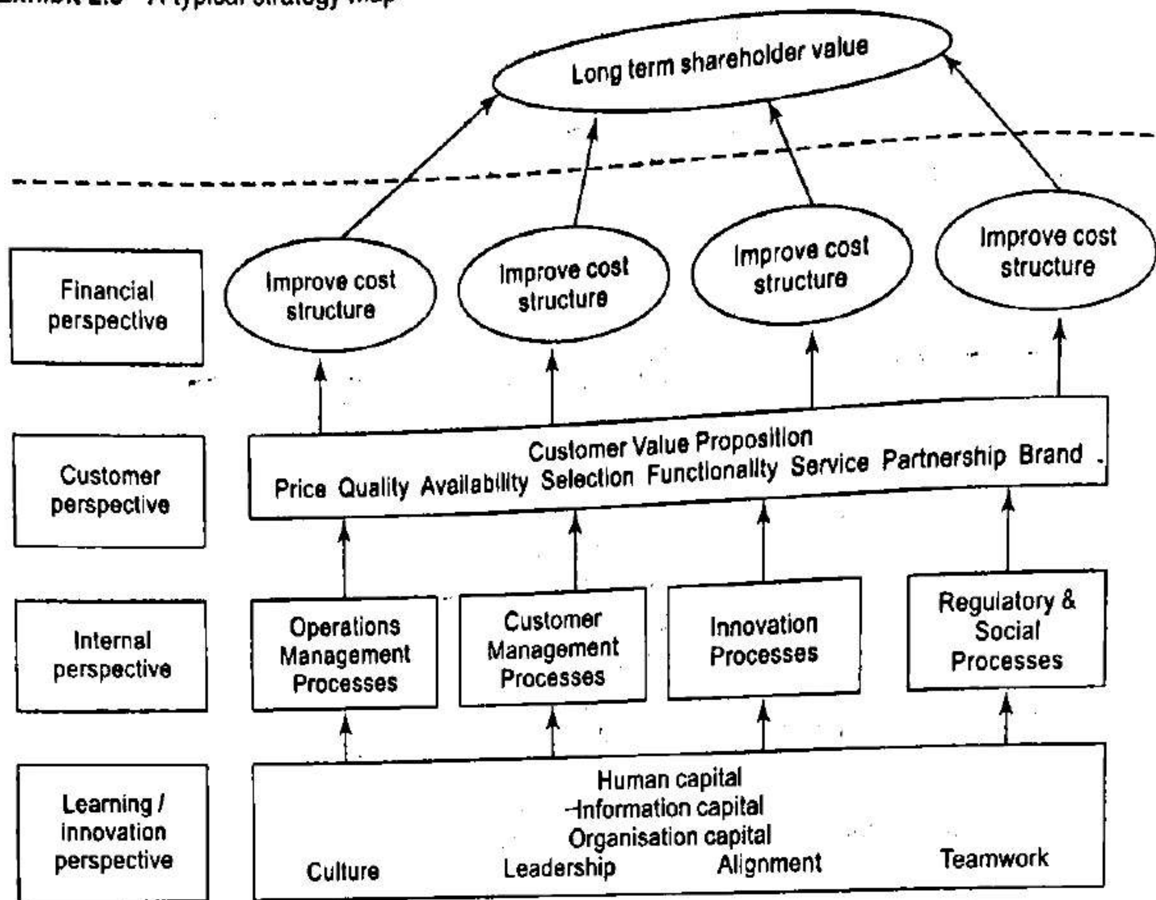
Exhibit 2.8 A typical strategy map



Source: Based on R.S. Kaplan & D.P. Norton, *The Strategy-focused orientation: How Balanced Scorecard Companies Thrive in the New Business Environment*, Boston, Harvard Business School Publishing, 2000 and R.S. Kaplan & D. P. Norton, *The Balanced Scorecard: Translating Strategies into Action*, Boston, Harvard Business School Press, 1996.

Our purpose here is to note that objective-setting can use the balanced scorecard approach. The four perspectives above can help an organisation to set objectives. The utility of the balanced scorecard approach lies in the prioritisation of key strategic objectives that can be allocated to each of these four perspectives and the identification of associated measures that can be used to evaluate organisational progress in meeting the objectives.

In practice, the balanced scorecard approach works something like this:

1. The development of the scorecard begins with the establishment of the organisation's strategic intent, including the vision and mission.
2. Next, the design of the balanced scorecard is determined by identifying the specific measures related to the four perspectives. The specific strategies that should be formulated and implemented to realise that vision are also determined.
3. The following step involves mapping the strategy through the identification of organisational activities that are derived from the strategies. For example, achieving financial growth may be expressed in terms of sales growth and revenue growth.
4. In the final stage, metrics that can be used to accurately measure the performance of the organisation in the specific areas are established. In the example above, metrics for revenue growth may be expressed in terms of sales to new customers, sales of new services or products or entry into new markets.

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The balanced scorecard approach has become quite popular around the world, including India. In a study of implementation of the balanced score card approach in 53 Indian companies, the major findings were as follows:[34]

- The balanced scorecard adoption in Indian corporate sector matches that of the United States, indicating its growing popularity.
- The financial perspective has been found to be the most important perspective, followed by customers' perspective, shareholders' perspective, internal business perspective and learning and growth perspective in that order.
- The difficulty in assigning 'weightage' to the different perspectives and in 'establishing the cause and effect relationships among these perspectives' has been found to be the most critical issue in the implementation of the balanced scorecard approach in corporate India.

There is enough practical evidence to suggest that strategists do not, in reality, follow a well-balanced, integrated and comprehensive approach to objective-setting. In fact, they might start with asking the question: what do we have to achieve in order to be successful in our business? The next subsection takes up this question for discussion.

Critical Success Factors

Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in—our studies? our career? our profession? our marriage? Similarly, managers too are concerned about knowing those critical factors which lead to success for their organisations. Critical success factors (CSFs), sometimes referred to as strategic factors or key factors for success, are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, while putting in relatively less efforts.

A shoe manufacturing company may consider the following CSFs: high manufacturing quality, cost efficiency, sophisticated retailing, a flexible product mix and creation of a product image. Toothpaste is a very personal product and so, it enjoys a high brand loyalty. Besides this, four qualities are important in toothpastes: form, flavour, foam and freshness. A company manufacturing toothpaste has to excel in these qualities besides building up a high loyalty, in order to be successful. In general, service organisations exist on the basis of the quality of their customer service. But there are other CSFs too. A courier service, for instance, is critically dependent on three factors: speedy despatch, reliability and price. Observe from these examples that if organisations keep in view the relevant CSFs, these can be used for objective-setting as well as for exercising a strategic choice (we will deal with the latter in a subsequent chapter).

Steiner, based on a study related to identifying strategic factors which are important in different businesses, confirms that 'there are indeed strategic factors needed for the success of a business and they can be identified.'[35] Seen in this light, the eight attributes of excellence found by Peters and Waterman could be considered as generalised CSFs across several different American industries.[36]

Rockart has applied the CSFs approach to several organisations through a three-step procedure for determining CSFs. These steps are: to generate the success factors ('what does it take to be successful in business?'), refining CSFs into objectives ('what should the organisation's goals and objectives be with respect to CSFs?) and identifying measures of performance ('how will we know whether the organisation has been successful on this factor?').[37]

Ohmae treats CSFs (or key factors for success, as he calls them) as a basic business strategy for competing wisely in any industry. He suggests identifying the CSFs in an industry or business and then to 'inject a concentration of resources into a particular area where the company sees an opportunity to gain significant strategic advantages over its competitors.'[38] Resources are allocated to a particular area only when objectives are set for achievement in that area. A strategy based on CSFs would, therefore, require setting objectives for those CSFs also.

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Some points regarding CSFs are worth noting:

1. A set of CSFs is the result of asking the question: what do we need to do in order to be successful in a particular context.
2. CSFs are based on practical logic, heuristic or a rule of thumb rather than on an elaborate procedure or an esoteric theoretical model.
3. CSFs are the results of long years of managerial experience, which leads to the development of intuition, judgement and hunch for use in strategic decision-making.
4. An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.
5. CSFs could also be generated internally through creative techniques such as brainstorming.
6. The use of CSFs in objectives-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.
7. CSFs are used to pinpoint the key result areas, determining objectives in those areas and devising measures of performance for judging the objective-achieving capability of any organisation.

CSFs need key performance indicators in order to be measured.

Key Performance Indicators

Performance indicators are well understood as being metrics or measures in terms of which performance is measured, evaluated or compared. Key performance indicators (KPIs) are the metrics or measures in terms of which the critical success factors are evaluated. What makes the KPIs 'key' is their relationship to the CSFs and ultimately, to the vision of the organisation. An organisation might have the vision 'to be the most profitable company in our industry'. For making this vision operational, it needs to determine KPIs such as pre-tax profit or shareholder equity that measure profitability. In the case of this organisation, the per cent of profit contributed to community causes will not be a relevant KPI. For an organisation, that states its vision 'to be a responsible corporate citizen' the KPI of per cent of profit contributed to community causes is appropriate.

Identification of which KPIs to use is important. A shoe manufacturing company that considers high manufacturing quality or cost efficiency as its critical success factors, has to think of metrics in terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of an indictor such as recall rate after delivery, product reject rate, on-time delivery or number of complaints. The company has to determine which combination of metrics it would use to determine whether it is successful. KPIs thus help to quantify the critical success factors.

Selecting the right measures is vital for effectiveness. Ever more importantly, the metrics must be built into a performance measurement system that allows individuals and groups to understand how their behaviours and activities are fulfilling the overall corporate goals. If a KPI is going to be of any value, there must be a way to accurately define and measure it. 'To Generate More Repeat Customers' may apparently seem to be impressive as an objective, but it could be inappropriate as a KPI without some way to distinguish between new and repeat customers. 'To Be The Most Popular Company' may not work if there is no way to measure the company's popularity or compare it to its competitors. If a company wishes to be 'an employer of choice' then a relevant KPI might be 'the number of voluntary resignations divided by the total number of employees at the beginning of the measurement period'. To make this KPI practical, the human resource management information system should be able to provide information required to measure on the basis of this metrics, otherwise the KPI itself becomes redundant.

Benefits of KPIs KPIs have gained importance as well as popularity in the corporate world as they have several benefits. The major benefit in using KPIs is to help an organisation define and measure progress

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Comp Philosophy - Vision - Mission - Purpose - Bus Pay - Bus Model - Tasks

toward its objectives. KPIs give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives. They are a helpful tool for organisations to motivate their employees towards achievement of its objectives. KPIs are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling the development of sophisticated information technology based tools such as *dashboards* that show organisational performance at a glance, in the form of visual charts and videos. KPIs can also be used for benchmarking the performance of an organisation over time and to compare its performance with rivals in the same industry.

Having seen what CSFs and KPIs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. An explicit structuring of the hierarchy of a strategic intent has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different sub-systems within an organisation. Third, it is a powerful means of communicating the organisational intent down the line. And, lastly, it ensures the creation of a result-oriented organisational system set to attain the mission and realise the vision of the organisation.

With the hierarchy of strategic intent, the organisation knows the answer to the question: What is to be achieved? The next important question is: What are the means to be adopted in order to realise the intent? The next part of this book will answer this question.

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