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Business Strategy: Creating Effective Objectives (processexcellencenetwork.com)

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[Robert W. Swaim](#)

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The basic definition of the business must be translated into objectives, said Peter F. Drucker, otherwise they remain insights, and good intentions that never become achievement. Here's how to create effective objectives.

This article is Part Two of your management team's meeting with Peter Drucker. If you were not with us during the morning for the "[Three Questions You Must Be Able to Answer](#)", your company invited Drucker to visit and provide you with insight as to the direction your company should take and what is the best strategy to consider particularly with respect to the rapidly changing global economy and economic uncertainty. Part One consisted of a morning meeting with Drucker where he discussed the three key questions you need to ask yourselves and answer:

- *What is our business? (Mission)*
- *What will our business be? (The changing environment that we are certain about)*
- *What should our business be? (Vision)*

This Part, or afternoon meeting with Drucker, will first review the process you will need to go through in order to be able to answer these three key questions. Drucker will then focus on the importance of objectives, and finally put profit into perspective. Once again, I will also provide commentary with respect to your interview with Drucker.

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The Strategic Management Process

Before you can answer the three key questions and formulate a strategy, it is important and necessary to perform an assessment of your external environment and of your own internal environment or your organization's capabilities, core competencies, strengths and weaknesses.

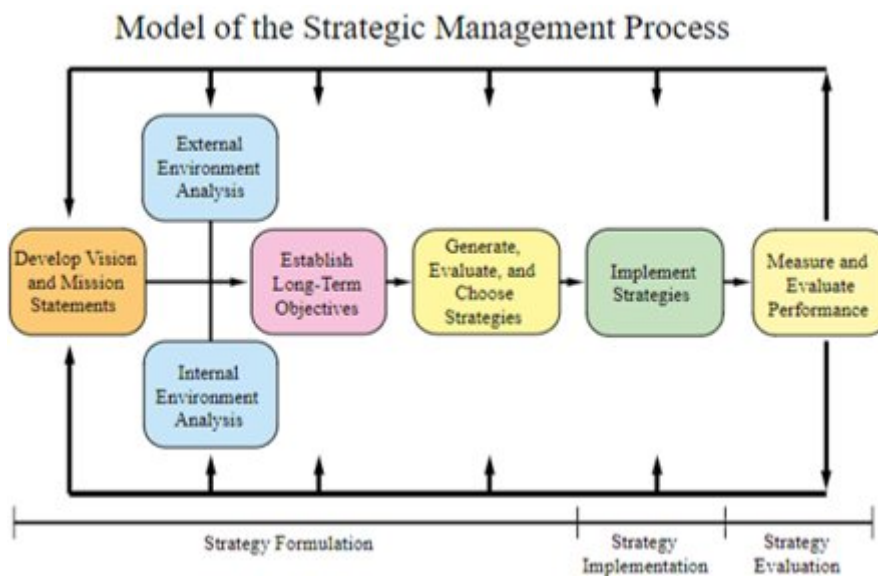


Figure 1 – The Strategic Management Process outlines the key elements of the "Process" and questions that need to be asked

- **Mission and Purpose of the Business**
 - What is the Mission of the business?
 - Is the Mission appropriate for the current environment or needs to be redefined?
- **Short Term Objectives**
 - Are we meeting our short-term objectives (marketing, innovation, financial, etc.)? If not, is there something wrong with our Mission or strategy?
- **What Will Our Business Be?**
 - What changes have or are taking place in the environment that will have an impact on our present customers, products & services, and industry?
- **Industry Analysis**
 - Should we be in this or another industry?
 - Is the industry growing, stable, or declining?
 - How easy or difficult is it for others to enter or leave the industry?
 - Knowing what we know now, would we do this?
- **Vision for the Future**
 - What should our business be?
- **Long-Term Objectives**
 - What Financial, Marketing, Innovation, and other Long-Term Objectives need to be established to achieve the Vision? (Drucker comments on the type of objectives needed later in the meeting)

- **External Environment Assessment**
 - What changes are or will take place in the following areas: Customers (changing needs), Competitors (competitive analysis), Technology, Suppliers, Government Regulations, Demographics and Society Changes, other, etc.? (Refer to the morning meeting for Drucker's insight here)
- **Assessment of Innovative Opportunities and Potential Risks**
 - Based on the External Environment Assessment, what Innovative Opportunities should the organization prioritize and pursue?
 - What "Risks or Threats" should the organization be aware of and attempt to minimize?
- **Internal Assessment (Core Competencies and Capabilities)**
 - Do we have the resources (capabilities) to compete?
 - What other resources are needed and when?
 - What weaknesses do we have in key competitive areas that we need to address?
 - What strengths (core competencies) do we have that we should take advantage of?
- **Establishment of Long-Term Objectives (3 to 5 years)**
 - What Long-Term Objectives need to be established now in order to achieve our Vision?
- **Strategic Alternatives and Decision**
 - What is the best competitive strategy that will allow us to accomplish our objectives and achieve our Vision?
 - What are the competitive strategies to consider?
- **Strategic Plan**
 - How are we going to document how we will get there (The Strategic Plan)?
 - What resources will we need, how will we be organized?
 - Who should do this?
- **Implementation of the Plan and Leading Change**
 - What changes may be necessary in the organization?
 - Who will plan, lead, and implement organizational Change?
- **Evaluation, Assessment and Modifications**
 - Are we achieving our objectives?
 - Are we receiving the right information when we need it for decision-making?

Once again, Drucker asks you, "Do you perform this Process, how often, and who does it in your organization?" How would you respond to him?

Obviously time does not permit us to cover all the Elements of the Strategic Management Process in detail, so we will make the best use of our meeting time with Drucker and allow him to focus on the importance of objectives. The Process is covered in detail in the author's book, *The Strategic Drucker*.

Drucker on Establishing Objectives

The following are some important comments by Drucker on the need for establishing objectives and the type of objectives that are needed. Drucker was the first to advocate the establishment of objectives many years ago in his popular book, *"Managing for Results."*(1965). According to Drucker, "The basic definitions of the business, and of its Purpose and Mission, have to be translated into objectives. Otherwise they remain insights, and good intentions that never become achievement. Objectives must be derived from the three key areas, *what our business is, what it will be, and what it should be.*" Drucker adds that, "Objectives are not fate; they are directions. They are not commands; they are commitments. They do not determine the future; they are a means to mobilize the resources and energies of the business for *making the future.*"

The following are some guidelines from Drucker on objectives:

- "Objectives represent the fundamental *strategy of a business.*

- Objectives must be operational (converted into specific targets and assignments).
- Objectives must make possible *concentration of resources* and efforts (human resources, capital, physical facilities, etc.).
- There needs to be *multiple objectives* – not one right objective (balance a variety of needs and goals).
- Objectives are needed in all areas of which the *survival* of the business depends."

The Need for Multiple Objectives

Drucker advocated that the following categories of objectives need to be established by the business: Marketing, Innovation, Human Resources, Financial Resources, Physical Resources, Productivity, Social Responsibility, and Profit Requirements. Meeting time with Drucker does not allow us to review all categories of objectives so we will focus on the two key functions of a business Drucker stressed in the morning meeting – *Marketing and Innovation*.

Marketing Objectives

Allows management to make two key decisions; what part of the market to concentrate on, and what market and product lines the business should desire to be a leader in. The following are the key areas for Marketing Objectives:

- **Existing products and services in existing markets** – the desired standing of existing products in their present market, expressed in the local currency, and percentage points, and measured against both direct and indirect competition.
- **Existing products and services in new markets**– the desired standing of existing products in new markets, expressed in the local currency, and percentage points, and measured against direct and indirect competition.
- **Existing products that should be abandoned** – for technological reasons, because of market trends, to improve product mix, or as a result of management's decisions concerning what the business should be.
- **New products needed in existing markets**– the number of products, their properties, the dollar volume and the market share they should gain for themselves.
- **New markets for new products** - should be developed in dollars and percentage points.
- **The distribution organization** - needed to accomplish the marketing objectives and the pricing policy appropriate to them.
- **Service objectives** - measuring how well the customer should be supplied with what he considers value by the company, its products, its sales, and service organization.

Drucker now asks you, "Do you have marketing objectives in these key areas?" How would you answer him?

Innovation Objectives

According to Drucker, there are three types of innovation. These are; *Product Innovation* – Innovation in products or services, *Social Innovation* – Innovation in the marketplace and consumer behavior and values, and *Managerial Innovation* – Innovation in the various skills and activities needed to make the products and services and to bring them to the market. The following are the areas where Drucker suggests Innovation Objectives are needed:

- **New products or services** - that are needed to attain marketing objectives.
- **New products or services** - that will be needed because of technological changes that may make present products obsolete.
- **Product improvements** - needed both to attain marketing objectives and to anticipate expected technological changes.
- **New processes and improvements** - in old processes needed to satisfy marketing objectives – for instance, manufacturing improvements to make possible the attainment of pricing objectives.
- **Innovations and improvements** in all major areas of activity – in accounting or design, office management or labor relations – so as to keep up with advances in knowledge and skills.

Drucker now asks you, "Does your business have Innovation Objectives and in what areas?" How would you answer him?

Objectives and Putting Profit Into Perspective

As you recall the first question Drucker asked you in the morning meeting was, "*What is the purpose of a business?*" Many of you may have replied, "*To make a profit*" and Drucker advised you that you were wrong, "*THE PURPOSE OF A BUSINESS IS TO CREATE AND RETAIN A CUSTOMER.*" As our meeting with Drucker is almost over, he now puts profit into perspective with the following comments:

- "Profitability is not the purpose of, but a limiting factor on the business enterprise and business activity.
- Profit is not the explanation, cause, or rationale of business behavior and business decisions, but rather the *test of their validity*."
- Profit is needed to pay for the *attainment of the objectives* of the business.
- Profit is a condition of survival – *it is the cost of the future*, the cost of staying in business.
- It is the first duty of a business to survive. The guiding principle of business economics is not the maximization of profits – *it is the avoidance of loss*.
- A business that obtains enough profit to satisfy its objectives in the key areas is a business that has the means of survival.
- A business that falls short of the profitability demands made by its key objectives is a marginal and endangered business.
- Profit planning is necessary – but it is planning for a needed *minimum profitability*, rather than for the meaningless *profit maximization*."

As Drucker concludes the meeting with you he asks again, "Do you now understand the *Purpose of a business?*" He also asks, "Do you now know how to answer the three key questions?"

- "What is our business?"
- "What will our business be?"
- "What should our business be?"

*Editor's note: This article is an extract of a longer article. The full article is available directly from the author at docswaim@gmail.com. Dr. Swaim also goes into more detail on the concepts discussed in this article in chapters 2 and 3 of his book [*The Strategic Drucker*](#).*

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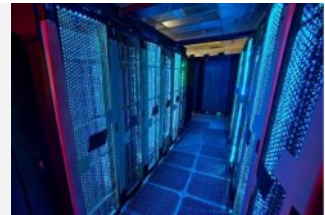
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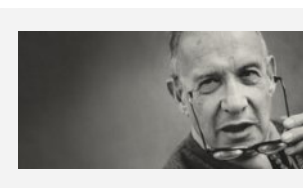
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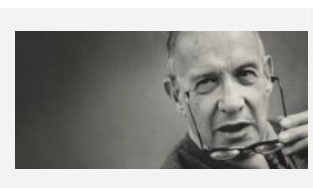
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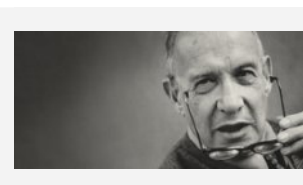
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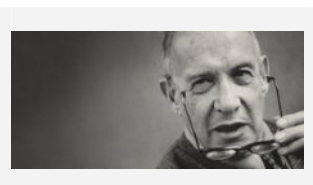
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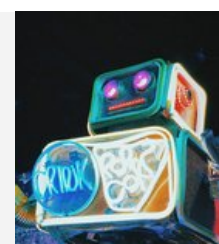
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