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Emerald Article: From the stakeholder viewpoint: designing measurable objectives

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1. An illogical mess

Organization objective setting has long been a core ingredient in the diet of CEOs and senior management teams. It is a necessary condition for developing clear and concise organization strategy. As the saying goes: if you don't know where you're going, you're never going to get there.

Yet in spite of objective-setting's centrality to strategy design and, indeed, to performance measurement, the method for developing objectives hasn't progressed beyond a seat-of-the-pants response to the question ''What are our objectives?''.

The neglect of the this core function can be seen in strategic management textbooks, for example Hill *et al.* (2007), Hubbard *et al.* (2008), Johnson *et al.* (2011) and Fitzroy *et al.* (2012). As a result, managers of organizations and directors on boards are left to their own devices as to how to go about designing measurable objectives.

The purpose of this article is to describe a method that has been field tested for more than a decade in a vast range of organization and industry settings and with senior executive teams from all sectors – private, public, not-for-profit.

2. Typical objective-setting session

Let's look at what usually takes place when it comes to setting organization objectives as part of a strategic planning exercise.

A group composed of the CEO and several managers will already have deliberated at length on the organization's mission, vision and values. Then a member of the group exclaims: ''Well, what are our objectives?''. ''Our'' doesn't refer to the group as managers, but to the organization – be it in the business, government or not-for-profit sector. It's apparent that the managers have rightly adopted the persona of the organization. The organization has become a ''person'', which is completely consistent with company law (Baxt, 2009).

To address the question, the CEO, a senior manager or a professional facilitator, will walk over to a flipchart or whiteboard and write the word ''Objectives'' on it. Everyone will pile in with suggestions and, in no time at all, a list something like this will probably appear:

- to grow the business by 10 percent per annum;
- to operate with integrity;
- to increase productivity;
- to get suppliers to deliver on time;
- to attract better staff;

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- to increase profitable revenue;
- to be a good corporate citizen;
- to be innovative;
- to change the foyer décor;
- to be number one in the industry;
- to decrease employee turnover;
- to increase funding; and
- to provide products diametrically in the opposite direction to the competition.

The group looks at its handiwork and thinks ''good!''. But it also thinks ''not so good''. The good bit is that the managers have a list. They have many items. Everyone has participated. The not-so-good part is that the list is a real jumble – frankly, an illogical mess. Some items are quantified, others are vague and general. Certain ones are a repeat of the organization's mission, vision and values. As a result the managers are not really satisfied with the outcome. But it's the way they've always done it. Hardly sophisticated, the managers will readily acknowledge, but as they know no other way, they continue the practice.

It's quite alarming that in spite of all the advances in strategy design through the works of Michael Porter (Porter, 1980, 1985) and others, this very central element in the strategy development process – objective-setting – has remained so sterile for so long. Before I outline a fresh objective-setting technique, I review where we are at present.

3. Objectives in strategy

It's widely recognized that it was Igor Ansoff's 1965 book, *Corporate Strategy*, that formalized business strategy (Ansoff, 1965). As Henry Mintzberg has described it:

> The publication of the book, *Corporate Strategy*, by H. Igor Ansoff was a major event in the 1965 world of management. As early as it came in this literature, the book represented a kind of crescendo in the development of strategic planning theory, offering a degree of elaboration seldom attempted since (at least in published form) (Mintzberg, 1994, p. 43).

Ansoff provides an extensive discussion on objective-setting and its pivotal place in strategy design, an emphasis that has been brushed over by subsequent authors. (Ansoff wrote other books on strategy – e.g. Ansoff, 1979, 1984 – but neither of these dealt with objectives to the extent of his 1965 book.)

Before reviewing Ansoff's contribution, I'd first like to consider what another of modern management's forefathers, Peter Drucker, had to say about setting objectives.

Drucker's seminal contribution came a decade earlier than Ansoff's with the publication of *The Practice of Management* (Drucker, 1955). This bestseller was distributed in training programs and was widely read by managers. It also had a major role in disseminating ''management by objectives'', which refers to how individual managers are tied to organization objectives through a process of cascading objectives from the top of an organization to the bottom. The purpose of the method was to assist every manager to develop his or her objectives so that each would know his or her contribution to overall organization objectives.

It's the latter, of course, that I'm concerned with here, and Drucker devotes a whole chapter to the subject: ''The objectives of a business''. But here's the problem: he doesn't provide any ''how to'' at this level. While he nominates certain ''areas in which objectives of performance and results have to be set'' he leaves it to practitioners to move ahead from there (see also Drucker, 1976, also in Drucker, 1981).

Drucker did, however, suggest a pattern in classifying objectives and developing attendant measures (see also Drucker, 1964). Today this is commonly conducted under the rubric ''key result areas'' or some similar heading, the most recent manifestation of which is the Balanced Scorecard (Kaplan and Norton, 1996, 2001; Schneiderman, 1999), with its four ''perspectives'' – or, as some managers have described them, the ''four buckets'' (Ittner and Larcker, 2003). But all of these remain ad hoc methods for developing the objectives themselves. In the Balanced Scorecard's case, for example, executives are interviewed for their off-the-cuff suggestions (Kaplan and Norton, 1996, pp. 302-5).

So for some fundamental thinking on the subject we really do have to return to Ansoff.

In *Corporate Strategy*, Ansoff devotes two chapters to objective-setting – one called ''Objectives'', the other ''A practical system of objectives''. He starts the latter thus:

> We shall approach practical objectives through a series of approximations. Keeping the maximization of the rate of return as the central theoretical objective, we shall develop a number of subsidiary objectives (which the economists call *proxy* variables) which contribute in different ways to improvement in the return and which are also measurable in business practice. A firm which meets high performance in most of its subsidiary objectives will substantially enhance its long-term rate of return. (The defect in our approach is that we cannot prove that the result will be a ''maximum'' possible overall return.) As will be seen, this road has its own obstacles: the difficulties of long term maximization are replaced by the problem of reconciling claims of conflicting objectives (p. 47).

Clearly Ansoff is addressing the needs of firms here and not necessarily the requirements of government and not-for-profit organizations. But ''the problem of reconciling claims of conflicting objectives'' is common across all sectors.

Within the chapter, Ansoff provides a section called ''The process of setting objectives''. Here you might think is the ''how to''. But no, the author remains at a system and structure level for the ''firm'', and hence it is far removed from managerial action.

To understand better what Ansoff is driving at, readers need to visit his early chapter, ''Objectives'', and here I find myself parting company with him. (Readers may wonder why the concentration on Ansoff. It is because of his pivotal role in the objective-setting literature and the lack of methodological development since his contribution; for an academic review of the literature, see Shinkle, 2012.) In the ''Objectives'' chapter Ansoff rejected early ''stakeholder theory'' (Abrams, 1954; Stewart *et al.*, 1963) as a foundation for setting organization objectives because, as he wrote, ''the theory maintains that the *objectives of the firm* [emphasis added] should be derived by balancing the conflicting claims of the various 'stakeholders' in the firm: managers, workers, stockholders, suppliers, vendors'' (Ansoff, 1965, p. 39). In this interpretation, organization objectives become what stakeholders want from the firm. Viewed this way a stakeholder framework for developing objectives looks like ''all give and no take''. Little wonder, then, that Ansoff was not enamored of a stakeholder approach. Yet in my formulation (Kenny, 2001, 2005) a stakeholder framework in strategic planning and objective setting is both give and take (Freeman, 1984). In fact, and in practice, organization objectives are what the organization wants *from* its key stakeholders.

4. Stakeholders and objectives

Organization objectives to do with profitable revenue, for example, are based on obtaining this from customers, one of the stakeholder groups. Organization objectives concerned with improving productivity and increasing innovation are what a firm wants from another stakeholder: employees. And so it goes. This rethink about the very nature of organization objectives makes a logical connection between what stakeholders want from an organization, which I call ''strategic factors'', and which are the basis of an organization's strategies, and what the organization wants from its stakeholders, labeled ''organization objectives''. Both sides together provide a true strategy framework called the strategic factor system (Kenny, 2001, 2005).

I now take a close look at the lists of objectives developed by senior management teams following the conventional means, such as that provided at the beginning of this article. What's hidden beneath them is indeed a stakeholder structure. In other words, unless the items were merely a restatement of the organization's vision, mission and values in a different form, or an action, each objective on these lists is related to an organization stakeholder:

- to grow the business by 10 percent per annum (customers);
- to operate with integrity (a value);
- to increase productivity (employees);
- to get suppliers to deliver on time (suppliers);
- to attract better staff (employees);
- to increase profitable revenue (customers);
- to be a good corporate citizen (a value);
- to be innovative (a value);
- to change the foyer décor (an action);
- to be number one in the industry (part of vision statement);
- to decrease employee turnover (employees);
- to increase funding (government); and
- to provide products diametrically in the opposite direction to the competition (part of mission statement).

So if organization objectives are underpinned by a stakeholder structure, why not design a more systematic approach to objective setting by making the stakeholder structure explicit, right at the outset? In other words, identify an organization's key stakeholders first, such as customers and employees, and then methodically develop objectives, stakeholder by stakeholder.

What then becomes clear is that designing an organization's objectives means laying out what it needs to achieve through its key stakeholders (Kenny, 2001, 2005). This is also what an organization wants as inputs from its key stakeholders, for example funds or productivity. Getting those inputs is strategy. And this is the link between the strategy of an organization and its objectives.

I came to unravel and reconstruct the objective-setting problem in this way several years ago. It is of note that it's completely consistent with the modern systems view of everything – organizations, climate change, ecology, etc. – in which one thing depends on another. At the time, however, I felt that there was a much needed prior step to get to a truly fundamental objective-setting method.

It goes this way. If an objective is an expression of what an organization wants from a key stakeholder, it must involve behavior by a stakeholder and, as far as the organization is concerned, a behavioral outcome. For example, if an organization wants revenue from

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> "In target-setting we work in reverse. Targets for shareholders shape targets for customers, targets for customers shape targets for employees."

customers, the behavioral outcome is having customers buy from the organization. If we recognize these behaviors first, I thought, we're in a much better position to develop measurable objectives once these behaviors are translated into organization objectives.

5. A streamlined approach

5.1 Identify key stakeholders

Every organization has stakeholders and identifying them is an essential first step to producing measurable objectives. In the case of a small business, these are customers, suppliers, employees and owners. Larger and more complex organizations, such as an Arts Council, an Autism Association, a government department like Defense or a corporation like BHP Billiton, have a more intricate set of stakeholders. In every one of these cases, however, it's important to narrow the focus to those stakeholders that are key. In other words, executive teams and boards need to develop a shortlist of stakeholders that have or could have a fundamental impact on organization survival and growth.

5.2 Establish behavioral outcomes

Strategic planning teams need to be very clear as to what their organizations want each of their key stakeholders to do for their organizations. These behavioral outcomes won't necessarily be simple to formulate, such as ''to get customers to buy more from us.'' They will require extended discussion and finessing. Buying more may well be part of a behavioral outcome, but the whole outcome may be more complex, incorporating the purchase of high-margin products and new products. The refinements should continue until a very clear and measurable outcome has been developed for each of an organization's key stakeholders.

To ensure that management teams in strategic planning sessions concentrate on behaviors, I use this formula for stating behavioral outcomes: ''to get/have < key stakeholder > to . . .''. A recent example comes from an Arts Council. One of its key stakeholders was corporate sponsors. What the Arts Council wanted as a behavioral outcome was ''to get corporate sponsors to provide funds''. Simple enough. But that was only the first cut. On reflection the management team realized that they wanted more. So they added ''and co-sponsor events''. This full behavioral outcome morphed into the organization objective: ''to increase revenue from corporate sponsors'', to be measured in a variety of ways influenced by the behavioral outcome itself: dollar funds; the number of co-sponsored events; the percentage share of corporate sponsor dollars to the Council. Targets over the course of the Council's strategic plan were then set on these three measures, and strategies were developed to achieve them.

5.3 Design organization objectives

Objectives usually include the words, ''to increase'' or ''to decrease'' as with the example of the Arts Council. ''To maintain'' may also be used, such as in the case of a management team of a not-for-profit organization who wrote ''to maintain government funding''. The task at this point for a strategic planning team is to convert the already developed behavioral outcomes into organization objectives. For instance, the behavioral outcome ''to get good employees to join the organization and stay'' was translated by one management team into the organization objective ''to decrease turnover of effective employees''. How to achieve this objective is the concern of strategy.

5.4 Develop measures

Many strategic planning teams, confused as to what constitutes a ''measure'', write descriptions of activities or programs or projects. Over the years I noticed that business measures fell into one of three categories, and that each category could be preceded by a symbol. One symbol, $, covers monetary measures such as $ revenue, $ profit and $ funds. (Each country, of course, has its own monetary symbol.) Another symbol, #, stands for ''number of'' and covers numerical measures such as # patients, # cars produced, # errors, and #occasions. The third symbol, %, covers percentage items such as % market share and % customer spend. (This third symbol also covers % points: a change from 15 to 17 per cent, for example, is a two % points change.) So, to avoid any confusion as to what a ''measure'' is and at the same time generate numerous measures, I rotate management teams through these three symbols having them brainstorm as they go. I ask: ''Are there any $ ways you can measure that?''. Then, having generated some responses I proceed: ''Are there any # ways you can measure that?''. And finally I enquire: ''Are there any % ways you can measure that?''.

5.5 Set targets

Once a strategic planning team has developed its organization's objectives, and measures based on them, the time has come to set targets on those measures prior to developing strategies to achieve them. Strategic planning teams should try a combination of four methods. One involves looking at performance during the last period – month, quarter or year – and adding or subtracting an amount. For example, a team may factor in a 10 percent increase to a revenue target. Another method involves imperatives such as safety and risk. The target for the number of fatalities in the workforce clearly has to be zero. A third method is benchmarking. This involves developing targets by reviewing the performance of organizations within the industry or in other industries. One example might be employee turnover. A fourth method establishes a target on one measure by reviewing targets on other measures. This is where the key stakeholder structure is of further advantage. Results for employees drive results for customers, while results for customers drive results for shareholders. In target-setting we work in reverse. Targets for shareholders shape targets for customers, targets for customers shape targets for employees.

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Stakeholders,
Behavioural outcomes,
Measures,
New paradigm

6. Time for a new paradigm

The method of objective setting outlined in this article is sound theoretically and leads to the design of clear and measurable objectives. Once developed, these objectives will shape an organization's strategies effectively, leading to sustainable success. It's important to remember that targets on organization objectives shape organization strategies; they also provide a means of assessing the effectiveness of those strategies. Finally, without clear and quantified objectives, any strategy will do!

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