Setting the Goals of the Organisation

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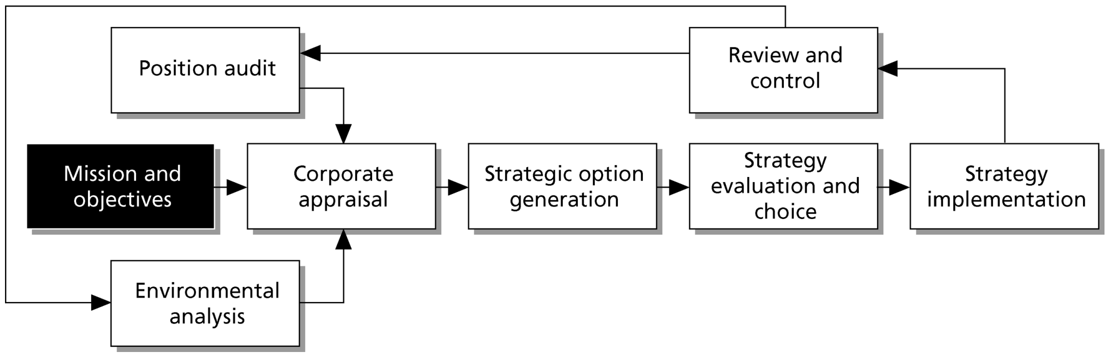
According to the rational model the first stage of strategy formulation is the setting of mission and objectives. This chapter looks at this process, the analysis of stakeholders, and the roles performed by mission and objectives, in detail.



LEARNING OUTCOMES

After completing this chapter you should be able to:

- identify relevant stakeholders in respect of an organisation;
- discuss how stakeholder groups work and how they affect an organisation;
- recommend proactive and reactive approaches to business/government relations and to relations with civil society.

1.1 The identity of stakeholders

You will be familiar with the concept of stakeholders from your study for *Integrated Management* and, it is recommended that you revise that section of the manual in addition to reading what follows.

Stakeholders are defined by CIMA as 'Those persons and organisations that have an interest in the strategy of the organisation. Stakeholders normally include shareholders, customers, staff and the local community.' (CIMA: *Management Accounting: Official Terminology,* 2005, p. 53).

As such we can consider them to be people and organisations (Figure 1.1) who have a say in:

- what you are to do,
- what resources you have,
- what you should achieve.

They are affected by, and feel they have a right to benefit or be pleased by what you do.

For a commercial organisation they include, amongst others:

Internal stakeholders	Owners/founders
	Management
	Staff
Mixed internal and external stakeholders	Trade unions
	Communities where organisation is based
External stakeholders	Bankers
	Other investors
	Governments & regulatory bodies

Figure 1.1 Stakeholders

If we consider a not-for-profit or public sector organisation this list increases quite dramatically and, in a recent exercise, over a hundred were identified for the BBC World Service. Bryson (1995) makes the point, strongly, that for a non-profit or public organisation a thorough analysis of stakeholders is essential.

It is important to remember that if an organisation tries to implement strategies which are in conflict with the interests of powerful stakeholders those strategies are highly likely to fail. This does mean, however, that if powerful stakeholders agree with what we are trying to do it will greatly improve our chances of success.

With that in mind it is important for an organisation to identify an organisations' stakeholders and their power to affect the decisions and outcomes.

Within this process (Figure 1.2) it is worth noting that stakeholder values may not be immediately apparent and it is important to distinguish between desired, stated and lived values. For instance, if we consider a Fire Brigade the desired values will be based on Fire Prevention and minimising the number of fires that start usually by a process of education. The stated values usually involve response times to fires that have already started, in fact that is how their performance is measured by the government, so a conflict exists there. The lived values are those of the firefighters themselves and usually relate to their professional skill in putting out difficult fires – again a conflict exists.

Identify stakeholders
Identify their interests, values, and concerns
Identify sources of stakeholder power
Identify what claims they can make on the organisation
Identify the most important stakeholders from the organisations perspective
Map the relationships between them
Identify the resultant strategic challenges.

Figure 1.2 Stages in stakeholder analysis

Much the same as in real life, when mapping stakeholders you should always consider that individuals might be members of more than one stakeholder group. For instance, an employee, who is a trade union member, may also be active in the local community. This would place that person in three different groups – which you might consider to have completely different values. It would be silly to think that the groups did not communicate with each other and form alliances or that the same person could be treated in different ways depending on which group you choose to include them in.

1.1.1 Sources of stakeholder power

Sources of power, with examples from a hospital, that stakeholders may be able to bring to bear are shown in Figure 1.3.

Type of power	Example
Expertise	Doctors, anesthetists
Control over access to resources	Hospital budget manager
Control of access to information	Records management officer
Physical strength	Porters (possibly)
Preparedness to fight/confront	Trade union representative
Charisma	Consultants
Networks or relationships	Those with membership of professional body

Figure 1.3 Sources of power

1.1.2 Stakeholder claims on an organisation

When we consider what claims stakeholders can make on an organisation we are looking at their expectations and we must consider how these can be managed.

For instance, considering the stakeholders in Figure 1.1, staff could reasonably expect a good salary, a safe working environment, security and opportunities for advancement. The community in which the organisation is based might have expectations of a local employer with a social conscience but also have expectations of opportunities for employment of the local population. Bankers and other investors would, mainly, be looking for a return on their investment. You know from your studies elsewhere that those investors may be more or less risk averse and therefore have a different view on what constitutes a respectable return on investment.

Carroll (1991) has described the responsibilities that an organisation might typically have towards stakeholders:

1. *Economic*. The firm's economic responsibility is to be profitable (e.g. the responsibility to generate an acceptable rate of return for the shareholders).
2. *Legal*. The firm's legal responsibility is to obey relevant laws that are society's codification of right and wrong (e.g. the responsibility to file audited financial reports with government agencies).
3. *Ethical*. The firm's ethical responsibility is to do what is right, just, and fair and to avoid harm (e.g. the responsibility to choose wisely between several alternative investments of the firm's resources).
4. *Discretionary*. The firm's discretionary responsibility is to be a good corporate citizen by contributing its resources to improving stakeholders quality of life (e.g. whether the company should devote some of its resources to a community in which they have a key plant).

Once the power and expectations (and therefore their likely interest) has been established we can use a power interest matrix to assist the analysis. Mendelow (1991) has proposed such a matrix (Figure 1.4).

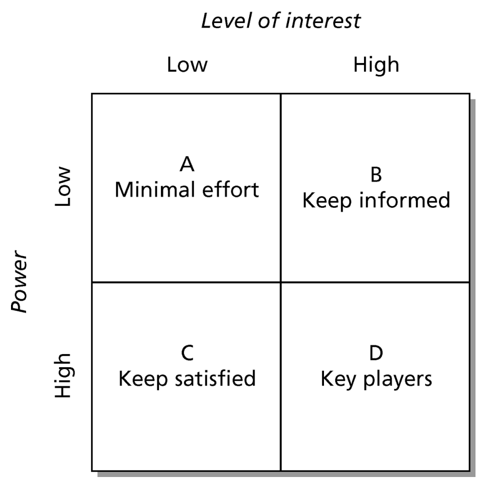


Figure 1.4 The Mendelow matrix (1991)
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If the stakeholders are plotted regularly this matrix can be used to determine the potential influence of stakeholder groups. As strategies are proposed or modified by the organisation the matrix can be used to highlight possible threats (or assistance) from particular stakeholders groups.

1.1.3 Challenges and opportunities presented by stakeholder groups

When the vacuum cleaner manufacturer Dyson proposed closure of a factory and relocation abroad the completed matrix for the stakeholder groups looked like the one shown in Figure 1.5.

Scholes (1998) suggests the following strategies to deal with each quadrant:

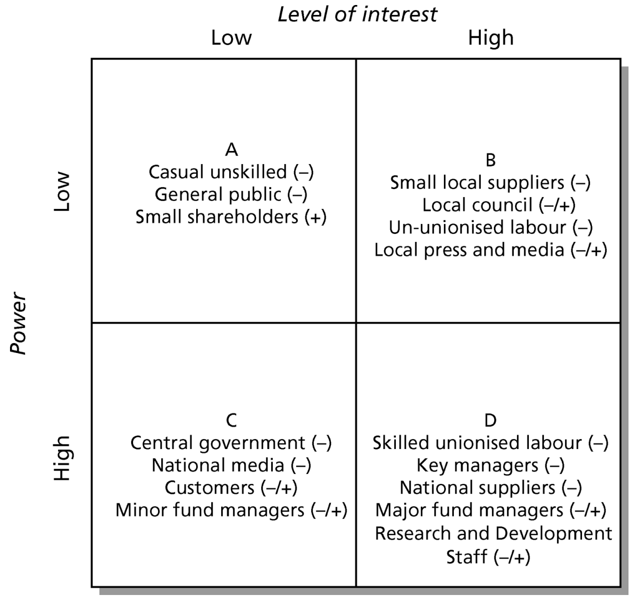

Figure 1.5 Illustration of Mendelow's matrix applied to Dyson

- Box A – *direction*. This means their lack of interest and power makes them malleable. They are more likely than others to accept what they are told and follow instructions.

  Factory management should not reappoint the casual staff but rather provide limited redundancy support. There is no need to tell the small shareholders or customers.
- Box B – *education/communication*. The positively disposed groups from this quadrant may lobby others to support the strategy. Also if the strategy is presented as rational or inevitable to the dissenters, or a show of consultation gone through, this may stop them joining forces with more powerful dissenters in C and D.

  Factory management should brief all groups here on the reasonableness of the case for closure and of the provisions being made for the redundant staff. Advance notice will give each more time for adjustment.
- Box C – *intervention*. The key here is to keep the occupants satisfied to avoid them gaining interest and shifting into D. Usually this is done by reassuring them of the likely outcomes of the strategy well in advance.

  Factory managers should assure the government and suppliers that the closure will result in a more competitive firm that is able to compete worldwide. A similar message may reassure investors if it is backed up with a reassuring short-term dividend forecast.
- Box D – *participation*. These stakeholders can be major drivers of the change and major opponents of the strategy. Initially there should be education/communication to assure them that the change is necessary, followed by discussion of how to implement it.

  The factory managers should involve the unions in determining the redundancy package or redundancy policy. Key managers should be involved in deciding the basis on which early retirements should be handled and how redeployment or outplacement should be managed. Key shareholders will be consulted throughout to reassure them that costs will not be excessive.

1.1.4 Conflict between stakeholders

The objectives of the stakeholder groups will inevitably be different and may be in direct conflict. For example, the staff's desire for better pay and work conditions may conflict with the shareholders' desire for higher profits and the customers' desire for lower prices. The job of management is to develop and implement strategy with these differences in mind. This can be further complicated in organisations where the employees are also shareholders!

Additionally there will be differences between the goals of members of the same internal stakeholder group. Two examples are particularly important:

1. *Differences between shareholders*. This commonly manifests itself as a polarisation between those who broadly require their income as short-term dividends and those who are happy for profits to be retained to promote capital growth.
2. *Differences between managers*. The goals of managers and the departments they lead may conflict. Consequently many strategic objectives are the outcome of a political bargaining process at boardroom level.

It is worth remembering that individuals may be members of more than one stakeholder group at any point in time. For instance, workers in a factory may well be members of the local community or even elected local councillors. As such there may be conflicts between their interests and objectives in respect of a particular decision that the company is about to make.

1.1.5 Management of stakeholders

It is always important to consider why stakeholders might react to an initiative that the organisation has taken or proposes to take. Weiner and Brown (1986) suggest the following possible reasons:

1. Your initiative may result in economic loss to them.
2. They may view your initiative (e.g. using the application of new technology) as a potential threat to their health and safety.
3. Politicians may get involved as a way of showing their concern for their electors and the public in general (e.g. NIMBY – not in my back yard).
4. Your initiative is critical to those most directly linked to it (e.g. you are considering reviving a moth balled factory that will provide the stakeholders some good new jobs).
5. Your initiative could reflect the change in values or lifestyles characteristic of the stakeholder group (e.g. a risqué new TV show that shows singles trying to lure away committed partners in relationships).
6. Your initiative is attractive to opportunists.
7. Your initiative becomes a lightning rod for disaffected groups.
8. Your initiative can serve as currency for exchanging support among stakeholder groups (e.g. they help Group A against your initiative in order that Group A gives them help with one of their pet issues).
9. They are suffering from pique, because you did not involve them in the decision-making process.

Wood (1994) suggests that stakes can be considered as falling into the following analytical categories:

1. *Single or multiple issue stakes*. Single-issue stakeholders are only concerned with one facet of an organisations operations whilst multiple-issue stakeholders care about many.
2. *Economic or social stakes*. Those with economic interests care about the distribution of financial or material resources (shareholders care about corporate profitability, employees about salary levels, etc.), whilst those with social interests usually have beliefs, values or concerns (corporate social responsibility, equal employment opportunity, witness protection, etc.)
3. *Concrete or symbolic stakes*. Concrete interests are related to the allocation of material resources, whilst symbolic interests are displayed in more difficult to define terms such as demands for something to be done, reassurances, gestures and goodwill.
4. *Local, national or international interests*. The boundaries of various stakeholders groups may vary from the local issue to the national agenda to an international or even global framework.

   Stakeholder groups have the potential to present both opportunities and challenges to the management of an organisation. The firm could be presented with the opportunity to build harmonious, long standing, positive and productive relationships. Alternatively, if the situation is mis-managed threats could take the form of resource withdrawal or damage to reputational capital. Both can be viewed in terms of the potential for cooperation or confrontation.

These opportunities and threats should be analysed in terms of:

1. *Importance of effect*. How seriously will stakeholders interests and actions affect the company's performance?
2. *Direction of effect*. In which direction is the principal effect flowing. From the company to the stakeholder (e.g. bad smell from the plant over a residential area) or from the stakeholder to the firm (e.g. resistance to relocation of work to another site).
3. *Immediacy of effect*. At what time period – short, medium or long term – the company may be affected by stakeholder demands and action.
4. *Probability of resolution*. Whether the company has the capabilities and resources to deal with the stakeholder demands.

MacMillan and Jones (1986) identify a number of basic decisions that management should take about the approach used in dealing with stakeholders:

Do they deal directly or indirectly with stakeholders? Do they take an offensive or defensive approach? Do they, accommodate, negotiate, manipulate, or resist stakeholder claims? Do they employ a combination of the above approaches or pursue a singular course of action?

1.2 Mission statements

CIMA defines a mission statement as 'Published statement, apparently the entity's fundamental objective(s). This may or may not summarise the true mission of the entity.'

The mission is defined as 'Fundamental objective(s) of an entity expressed in general terms'. (CIMA: *Management Accounting: Official Terminology,* 2005, p. 49).

The implication might be taken that the mission statement is for public consumption and only reflects what the organisation wants the public to believe its intentions are.

You will be familiar with the concept of mission statements from your studies for *Integrated Management*. However, in addition to revising the appropriate sections of that syllabus you should consider the following issues.

First, let us refresh our memories about the different approaches to strategy proposed by the various schools of thought. There are many ways in which the strategic management process can be described. Various authors have described the process with differing degrees of formality and this had lead to a variety of schematics that they have felt indicate a sequence in which the various stages of the process occur. Approximately 10 years ago Hamel and Heene (1994) made the point that 'After almost 40 years of development and theory building, the field of strategic management is, today more than ever, characterised by contrasting and sometimes competing paradigms.' Whittington (1993) offers definitions of four distinct approaches to strategy making.

The Classical School is thoroughly prescriptive in approach believing that both the environment and the organisation are susceptible to rigorous analysis with a planning focus on profit maximisation. Key authors are Chandler (1962), Ansoff (1965) and Porter (1980).

The Evolutionary School advocates an efficient approach believing that a Darwinian approach to development is more appropriate since the environment of the organisation is not susceptible to analysis or prediction. The objective of the organisation is survival. Key authors are Hannan and Freeman (1988) and Williamson (1967).

The Processual School focuses on internal processes believing that outcomes are arrived at by an internal political process of bargaining and learning. Objectives of the organisation are likely to be less well defined than those of the Classical School and the strategy emergent. Key authors are Cyert and March (1956), Mintzberg (1978) and Pettigrew (1973).

The Systemic School adopts a more social process feeling claiming that any strategic process needs to be more aware of the cultural environment and societies in which the organisation must operate. Key authors are Granovetter (1985) and Marris (1964).

The mission statement of an organisation sets out the broad directions that they should and will attempt to follow and summarises the reasoning and values on which it is based.

Advocates of classical, prescriptive theories of strategy, would expect an organisation to set out its mission statement and objectives for the foreseeable future based on an analysis of the environment and the firms resources. However, some of those who believe that strategies emerge, particularly those who are uncertainty based, feel that a prescriptive mission statement is a waste of time since an organisations route is rarely, successfully, chosen.

Those who favour a processual or systemic approach would expect to see mission statements being the result of consultation between the various stakeholder groups and to reflect the interests of all involved parties. They would see the purpose of the mission statement as one of communication to all stakeholders both inside and outside the organisation. The message would be about what the company stands for and the direction in which it is going.

Whilst there is no clear decision amongst theorists about the definition of a mission statement, many companies find the process of deriving one to be beneficial. BAA, for instance, run workshops every few years with delegates from a cross section of the organisation to check if the mission statement in use accurately reflects the values and purpose of the organisation. Lynch (2003) has summarised the steps in the formulation of a mission statement which also indicates what it should contain.

1. Consideration of the *nature* of the organisations business. Typical questions include: 'What business are we in?' 'What business *should* we be in?'
2. The responses need to be considered from the customer or client perspective, rather than the organisation itself: 'We are in the business of developing books that will inform and educate our readers about strategy', *rather than* 'We are in the business of developing textbooks on strategic issues.'
3. The mission needs to reflect the basic *values and beliefs* of the organisation: 'We believe it is important to respect the environment and offer employment that is free from any prejudices associated with culture, race or religion.'
4. Where possible, the mission needs to reflect the element *of sustainable competitive advantage*: 'It is our aim to be a leader in this field.' This may not be possible in a diversified holding company. It may also be more appropriate to adjust this to reflect *distincitiveness* in an organisation which has no direct competitors, for example a charity.
5. The mission needs to summarise the main reasons for its choice of approach: 'We are a team. We must treat each other with trust and respect' would be a good example.

The published version of a mission statement should be carefully worded so as to be clearly understood since it will be read by a variety of people.

Lynch goes on to offer the following criteria with which to judge mission statements:

1. They should be specific enough to have an impact upon the behaviour of individuals throughout the organisation.
2. They should reflect the distinctive advantages of the organisation and be based upon an objective recognition of its strengths and weaknesses.

3. They should be realistic and attainable.
4. They should be flexible enough to take account of shifts in the environment.

Examples of mission statements might include those for;
Ford Motor Company

'World leadership in automotive equipment and financial services. To improve products continually to meet customer needs so as to provide a reasonable return to owners.'
www.ford.com/en/default.htm

It is worth noting that various stakeholders are addressed in the mission statement and there is a clear indication of the what the purpose of the company is

British Heart Foundation – a charity

The aim of the British Heart Foundation is to play a leading role in the fight against heart disease so that it is no longer a major cause of disability and premature death by:

- Funding medical research into the causes, prevention, diagnosis and treatment of heart disease
- Providing support and information to heart patients and their families through British Heart Foundation Nurses, rehabilitation programmes and support groups.
- Educating the public and health professionals about heart disease prevention and treatment
- Promoting training in emergency life support skills for the public and health professionals
- Providing vital life-saving equipment to hospitals and other heath providers.www.bhf.org.uk

Again the mission addresses the purpose of the organisation and a number of the stakeholders who have an interest in what the organisation actually does.

1.3 Corporate social responsibility

Building on the work of Carroll referred to earlier it has become increasingly important to consider how companies manage their business processes to have an overall positive impact on society.

At this point we can distinguish between business ethics and corporate social responsibility (CSR) which, although the two are often used interchangeably, have distinct meanings. Business ethics comprises principles and standards that govern behaviour in the world of business. Actions can be judged to be right or wrong, ethical or unethical, individuals inside or outside the organisation. These judgements will influence society's acceptance or rejection of the actions taken. CSR, however, refers to a firm's obligation to maximise its positive impacts upon stakeholders whilst minimising the negative effects. As such, ethics is just one dimension of social responsibility. The extent to which stakeholders judge that businesses meet, legal, ethical, economic and philanthropic responsibilities placed on them by their various stakeholders will determine the degree of corporate citizenship exhibited by the firm.

CSR has been defined as: '. . . the continuing commitment to business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' by representatives of the World Business Council for Sustainable Development. From the same source perceptions of CSR from different societies and cultures were given as 'CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government' (Ghana), 'CSR is about business giving back to society' (Philippines). In America there is more emphasis on the philanthropic approach to CSR, where companies will make charitable donations to society or its representatives. We can contrast the European approach where the emphasis is on business processes which are more socially responsible, complemented by investment in communities for reasons which are supported by good business cases. It is argued, by Mallen Baker, that the European approach is more sustainable since social responsibility becomes an integral part of the wealth creation process which should enhance the competitiveness of the business and maximise the wealth created from both the business and society. With a more philanthropic approach when times are hard and the bottom line is under pressure it becomes very easy to cut the size of the donation.

We can see that there is no one definition, or theory, of corporate social responsibility. We can consider an 'ethical conception' which is concerned with corporate self restraint, expansive public policy and corporate altruism which can be contrasted with an 'economic conception' involving fiduciary responsibility, minimalist public policy and customary ethics. In short the former is about general welfare and the latter about private wealth. The third conception that of corporate citizenship, concerned with corporate reputation, strategic philanthropy, political influence and multiple jurisdictions sits, uncomfortably, somewhere between the two.

It is certain that there will be increasing pressure on organisations to play an increasing role in the solution to social issues. This will be particularly true of those that have a global presence. This means that multinationals and NGOs will increasingly be looked to take a lead in addressing those issues where a national government or local firm has not been able, or willing, to arrive at a solution. With increasing globalisation, which we will discuss later, the power of the institutions attached to the nation state (national governments, judiciary and police for example) are declining.

An indication of the importance of this area is the fact that CIMA now include's corporate social accounting in their official terminology. They define it as 'Reporting of the social and environmental impact of the entity's activities upon those who are directly associated with the entity (for instance, employees, customers, suppliers) or those who are in any way affected by the activities of the entity, as well as an assessment of the cost of compliance with relevant regulations in this area.'

1.4 Setting strategic objectives

1.4.1 The link between mission and objectives

A mission is an open-ended statement of the firm's purposes and strategies. Strategic objectives translate the mission into strategic milestones for the business strategy to reach.

A strategic objective will possess four characteristics which set it apart from a mission statement:

- a precise formulation of the attribute sought;
- an index or measure for progress towards the attribute;

- a target to be achieved;
- a time-frame in which it is to be achieved.

Another way of putting this is to say that objectives must be SMART, i.e.

- Specific, unambiguous in what is to be achieved;
- Measurable, specified as a quantity;
- Attainable, within reach;
- Relevant appropriate to the mission of the firm;
- Time-bound, with a completion date.

Table 1.1 lists some strategic objectives.

Table 1.1 Examples of strategic objectives

Mission	Attributes	Measure
Growth	Sales volume	'000s of units
	Share of market	% of total volume
	Asset base of firm	Net assets
Quality	Customer satisfaction	Repeat purchases
	Defects	No. per '000
	Consistency	Adoption of standard procedures
Innovation	Peer group respect	Industry awards received
	Speed to market	Development time
	Successful new products	% of sales from new products
Social responsibility	Non-discrimination	Workforce composition
	Environmental pollution	Cubic metres of waste
	Safety	Notified incidents

You must expect questions requiring you to convert mission statements into objectives or to comment on the appropriateness of particular objectives for implementing the mission.

1.4.2 The goal structure

The *goal structure* is the hierarchy of objectives in the organisation. It can be visualised as the diagram in Figure 1.6. This pyramid parallels the organisation chart in Figure 1.6.

For a definition of the hierarchy of objectives look at the CIMA: *Management Acounting: Official Terminology,* 2005, p. 50.

Objectives perform five functions:

1. *Planning*. Objectives provide the framework for planning. They are the targets which the plan is supposed to reach.
2. *Responsibility*. Objectives are given to the managers of divisions, departments and operations. This communicates to them:
   (a) the activities, projects or areas they are responsible for;
   (b) the sorts of output required;
   (c) the level of outputs required.
3. *Integration*. Objectives are how senior management co-ordinate the firm. Provided that the objectives handed down are internally consistent, this should ensure *goal congruence* between managers of the various divisions of the business.

Figure 1.6 A goal structure

4. *Motivation*. Management will be motivated to reach their objectives in order to impress their superiors and perhaps receive bonuses. This means that the objectives set must cover all areas of the mission. For example, if the objectives emphasise purely financial outcomes, then managers will not pay much heed to issues such as social responsibility or innovation.
5. *Evaluation*. Senior management control the business by evaluating the performance of the managers responsible for each of its divisions. For example, by setting the manager a target return on investment (ROI) and monitoring it, senior management ensure that the business division makes a suitable return on its assets.

You may be familiar with these five functions (often recalled using the acronym PRIME) from your studies in budgetary control. Budget targets are a good example of operational level objectives. In this chapter, however, we are working at a higher level by considering the strategic objectives of the firm.

1.5 Critical success factors

1.5.1 Defining critical success factors

This approach first emerged as an approach for linking information systems strategy to broader commercial goals by first identifying the crucial elements of the firm's business strategy. More recently it has been appropriated by strategists in general as an alternative to the goal structure approach described above.

According to its originators, critical success factors (CSFs) are: 'the limited number of areas in which results, if they are satisfactory, will enable successful competitive performance' (Rockart and Hoffman, 1992). More recently Johnson and Scholes (1997) have defined CSFs as:

> . . . those components of strategy where the organisation must excel to outperform competition. These are underpinned by competences which ensure this success. A critical success factor analysis can be used as a basis for preparing resource plans.

CIMA defines critical success factors as 'An element of the organisational activity which is central to its future success. Critical success factors may change over time, and may include items such as product quality, employee attitudes, manufacturing flexibility and brand awareness.' (CIMA: *Management Accounting: Official Terminology* 2005, p. 47)

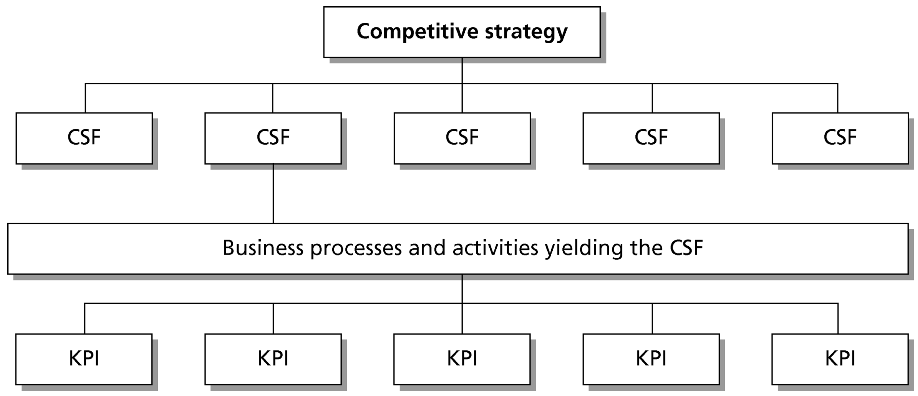

Figure 1.7 Critical success factors and key performance indicators

The attraction of the approach lies in the fact that it provides a methodology for identifying strategic goals (or CSFs) by basing them on the strengths, or *core competences*, of the firm. These are implemented through the development of key performance indicators (KPIs) for milestones in the processes delivering the CSFs (Figure 1.7).

1.5.2 Methodology of CSF analysis

According to Johnson and Scholes, this is a six-step process. We have illustrated them here using the example of a chain of fashion clothing stores.

1. Identify the critical success factors for the specific strategy. They recommend keeping the list of CSFs to six or less. The store chain might decide that these are:
   - right store locations;
   - good brand image;
   - correct and fashionable lines of stock;
   - friendly fashionable store atmosphere.
2. Identify the underpinning competences essential to gaining competitive advantage in each of the CSFs. This will involve a thorough investigation of the activities, skills and processes that deliver superior performance of each.

   Taking just one of the store's CSFs, the issue of correct stock, as an example:
   - recruit and retain buyers with acute fashion sense;
   - just-in-time purchasing arrangements with clothing manufacturers;
   - proprietary designs of fabrics and clothes;
   - close monitoring of shop sales by item to detect trends in which items are successful and which are not;
   - swift replenishment delivery service to minimise amount of stock in the system.
3. Ensure that the list of competences is sufficient to give competitive advantage.

   The store needs to consider whether improvement to the systems and processes underlying its CSFs will be sufficient to secure its place in the high street or whether more needs to be done. For example, have they considered whether they need to develop a direct ordering facility to raise profile and gain loyalty?
4. Identify performance standards which need to be achieved to outperform rivals. These are sometimes termed *key performance indicators* and will form the basis of a performance measurement and control system to implement and review the strategy.

KPIs that the clothing store chain might consider to match its key processes (listed above) include:

- staff turnover among buyers and designers;
- lead times on orders from suppliers;
- percentage of successful stock lines designed in-house;
- installation of a real-time store sales information system by the end of the year;
- establishment of one-day order turnaround for store replenishment.

5. Ensure that competitors will not be able to imitate or better the firm's performance of each activity, otherwise it will not be the basis of a secure competitive strategy.

   Our store would compare its competences against Gap, Miss Selfridge, Next, River Island, etc. It would need to consider whether its present advantages are sustainable.
6. Monitor competitors and predict the likely impact of their moves in terms of their impact on these CSFs.

   This process is carried out principally by discussions between management, although there is a clear additional role for the special expertise of the chartered management accountant in mapping the key process, developing KPIs and monitoring them.

It is worth remembering that critical success factors are specific to an organisation at which you are looking. They should not be confused with the survival factors and success factors which relate to the industry in general and which we will consider later in Chapter 2.

1.6 Meeting the objectives of shareholders

1.6.1 Maximisation of shareholder wealth as an objective

Traditional economic theory specifies that the objective of the firm is to maximise profit. However this assumption does not accurately reflect the goals of the shareholder for a number of reasons:

1. *It is a single-period measure* (typically annual). The shareholder wants financial returns across many years.
2. *It ignores risk*. Shareholders will require higher returns if risks are higher but will be satisfied with lower returns if risks are low.
3. *It confuses profit with cash flows to the investor*. The investor wants cash flows not a figure for profit on the income statement.

It can be argued that a more appropriate version of rational shareholder objectives is either (a) maximisation of the present value of the free cash flows of the business, or (b) maximisation of the share price.

We will return to this topic later in your studies when we consider the calculations in more detail.

1.6.2 Financial and non-financial objectives

Traditionally the shareholders' objectives have been translated into financial objectives such as profit or profitability (e.g. return on capital employed or earnings per share).

These accounting measures have several drawbacks when used as strategic targets:

- *They are not useful for start-up businesses*. During their first few years many firms do not make a profit or return a positive cash flow due to the high costs of set-up and getting established in the market. For example, in its early years, Amazon.com, the on-line bookstore, has a market capitalisation of $15bn, yet so far has not made a profit. Profitability measures are better suited to mature businesses.
- *They are inherently short-termist*. Because profit is an annual measure it encourages management to focus on short-term returns at the expense of the long-term development of the business. Hence managers may decide to cut product development, promotion or staff development to improve profit performance at the expense of the long term.
- *They provide no control over strategic behaviour*. The profit figure is a financial summary of the effects of a year's economic activity. The competitive strategy of the firm will seek to do business in particular ways in order to make this profit. This strategy should also feature in the goal structure.
- *They can be manipulated by creative accounting*.

Some of the drawbacks of profit-based measures are addressed by value-based measures. These are discussed in Chapter 8.

Consequently the strategic targets of firms usually contain a mixture of financial and non-financial measures of performance. These ensure that:

- managers follow courses of action consistent with the competitive strategy;
- shareholders and others can form an opinion of the success of the firm's strategy even when financial results are low;
- the strategic objectives can be more easily translated into tactical and operational objectives for divisions and processes without an immediately discernible impact on profits (e.g. human resources, marketing, etc.).

The issue of developing balanced scorecards of financial and non-financial objectives for the purposes of control is discussed in Chapter 8.

The debate on the primacy of financial targets widens when we recognise the impact of other stakeholders and the issues of corporate social responsibility.

1.7 Objectives of not-for-profit organisations

1.7.1 The nature of not-for-profit organisations

The previous sections dealt with organisations that pursue profits as their primary objective. What about those that do not?

Examples of not-for-profit organisations (NPOs) include:

- government departments and agencies (e.g. The tax authorities);
- trade unions;
- schools;
- charities (e.g. Greenpeace, Oxfam, Red Cross, Red Crescent, Caritas);
- mutual associations (e.g. building and some life assurance societies).

Unlike privately-owned businesses their primary objectives are unlikely to be financial. Instead they are seeking to satisfy particular needs of their members or the sections of society which they have been set up to benefit.

1.7.2 Example: The Chartered Institute of Management Accountants

Objectives

The Objectives of the Institute as set out in the Royal Charter are:

- To promote and develop the science of Management Accountancy and to foster and maintain investigations and research into the best means and methods of developing and applying such science and to encourage, increase, disseminate and promote knowledge, education and training and the exchange of information and ideas in respect of all questions relating thereto or connected therewith.
- To provide a professional organisation for Management Accountants and by means of examination and other methods of assessment to test the skill and knowledge of persons desiring to enter the profession.
  Source: CIMA website www.cimaglobal.com

1.7.3 Key features of NPO objective setting

1. Possibility of multiple and contradictory objectives. Unlike firms, NPOs may not have one dominant stakeholder group. Consequently the NPO seeks to satisfy several different groups at once, without having the touchstone of one primary objective, such as profit, to adhere to. For example, CIMA seems to have the following stakeholder groups in mind:
   - its qualified membership;
   - its student membership;
   - users of the information provided by management accountants;
   - the accountancy profession generally;
   - the research community engaged in management accounting research.

   With limited funds at its disposal, which one(s) of these gets priority?
2. *Participation in setting strategic objectives*. Many NPOs are compelled by their constitutions or law to go through processes of open consultation with their members and beneficiaries before deciding on strategy. For example, the housing services division of a local authority will ensure that it has tenant relations groups and tenant representation at its meetings in the same way as schools must have some parent-governors as well as teaching and council representatives.

   CIMA consulted widely among members, employers and academics in devising its new professional examinations syllabus. The Council of CIMA is made up of members and has a committee structure made of members.

   This need for participation and consensus can make objective setting slow, introduce conflict and compromise in objective setting and lead to contradictory objectives.
3. *The providers of funding are often different from the beneficiaries of the NPO's activities*. This increases the influence of charitable donors, funding bodies or government over the objectives of the NPO. Their objectives might not, however, be the same as the beneficiaries or members.
4. *The priorities of NPOs may change more frequently*. One obvious example is the changing objectives of schools according to which political party is in office. Another is aid charity that must suddenly cease long-term health education programmes to deal with a humanitarian disaster.

5. *Changed role for financial objectives*. NPOs do not need to make a profit, although some will wish to make a financial surplus to allow investment or the giving of financial assistance.

   CIMA does not mention finance, though we take it for granted that it does not intend running into financial deficits. This reflects the tendency for financial prudence to be a *requirement* in an NPO, rather than an objective.
6. *Increased role for personal objectives*. The nature of NPOs can lead to a lack of close scrutiny. Consequently particular individuals will pursue their own goals. For example, climbing the career ladder is a common feature of political parties and public bodies, while focusing on building up personal reputation is a feature of universities and among hospital consultants.

1.7.4 Public sector objectives

The public sector is diverse and includes:

1. *Nationalised industries:* A commercial enterprise that sells its goods on a market but which has its priorities set mainly by political rather than market conditions and reporting to government-appointed boards and government ministers rather than shareholders. They are often expected to develop a surplus (i.e. profit) from their operations to enable replacement investment.
2. *Government agency:* A service organisation such as a welfare benefits service or taxation body. Generally required to deliver an appropriate level of service to its customers (claimants or taxpayers) using the resources at its disposal.
3. *Public service organisation:* These provide a service on behalf of central or local government such as health, defence or policing. Generally no price is paid by the public for the use of these services which are instead financed from taxation.

Public sector organisations come under particular scrutiny for the following reasons:

1. *Lack of a profit motive* can lead to suggestions that they are not interested in ensuring efficient use of their resources or providing a good service to their clients.
2. *Lack of competition* means they cannot be compared to other organisations nor be subject to the disciplines of the market.
3. *Inadequate scrutiny* from shareholders means there is the danger that they will be swayed by the personal or political objectives of powerful stakeholders.
4. *Public interest* in their behaviour, usually in the form of questions from politicians or press articles, due to the desire for them to be democratically accountable.

One model for setting objectives in public sector organisations was suggested by the UK National Audit Office. It consists of evaluating performance according to three E's:

Effectiveness, That is, the extent to which it carries out its allotted tasks. For example a police force may have targets for detected crimes or a hospital for cure rates.
Efficiency: This relates to the level of service it delivers with the inputs or resources at its disposal. For example a social services office might be evaluated according to the number of cases being handled per number of staff or a tax office assessed on how quickly it processes tax returns and raises assessments.
Economy is the cost of the operation (or the surplus it generates). For example, a school might be evaluated on the cost per pupil per year.

Strategy in public sector organisations has a number of differences from that in profit-seeking organisations:

1. *Wider stakeholder involvement in deciding strategy.* Public sector organisations are democratised and hence management will be expected (sometimes under a statutory mandate) to consult with the public and employees before taking initiatives.
2. *Limited resources.* In profit-seeking organisations greater demand for services will cause a rise in revenues and hence increase the ability of the firm to extend supply. However, many public sector organisations must afford supply from a predetermined budget allocation. Consequently greater demand will cause queues and shortages such as hospital waiting lists or lack of spaces in desirable schools.
3. *Subject to changes in political priorities.* The expectations of the service, the funds available and the constraints on its operations will change as governments or policies change. These may be quite unpredictable and hence make planning difficult. Moreover many public sector organisations avoid committing to long-term strategic investments if they believe a change in political masters is likely.

1.8 Competing objectives

1.8.1 Importance of the existence of competing objectives

It has been shown that profit-seeking, not-for-profit and public sector organisations may have competing objectives arising from:

- conflicts between profit and social responsibilities;
- differences in the goals of particular managers;
- conflicts between the goals of influential stakeholder groups.

This has important implications in the following areas:

1. *Development of consistent strategies.* If the organisation does not have clear objectives, or if its objectives are in conflict with one another, then it will not be able to follow consistent courses of action. For example, a firm that seeks to satisfy objectives for short-term dividends while also pursuing long-term growth will eventually be forced to sacrifice one or other due to lack of funds.
2. *Deciding between strategic options.* Options are evaluated against the objectives of the business before management agree to devote resources. However, if one option provides a good financial return while another provides jobs in an area of high unemployment, a firm with both financial and social responsibility objectives will not be able to choose.
3. *Development of appropriate performance measures.* The more objectives an organisation has, the more control measures it will need to monitor performance towards them. If the objectives are competing there is a danger of conflicting signals or, worse, excessive focus on one at the expense of the rest. For example, a school will have many objectives such as producing good citizens, ensuring emotional development, catering for special needs, etc. However, parents and government prefer to have a single measure to decide whether a school is performing well or badly and tend to focus on examination results. This immediately distorts behaviour in the school towards exam results at the expense of other equally worthy objectives.

1.8.2 Resolving competing objectives

There are various techniques available:

1. *Prioritisation.* Management can specify that any strategy considered must as a minimum satisfy one or more specific objectives before they are prepared to consider it.

   For example, management may set a minimum profitability threshold for any strategy (say 15 per cent return on investment). Once this is assured they turn their attention to achieving it in a more socially responsible way.
2. *Weighting and scoring.* Each objective is weighted according to its relative importance to the organisation (a high weight denoting high importance). Each strategic option is scored according to how well it satisfies the objective (a high score showing high attainment). A weighted score is calculated for each objective, they are totalled and the strategic option with the highest overall score is accepted.
3. *Creation of composite measures.* These are used for strategy implementation and control rather than for strategy formulation and choice. Approaches include the use of *balanced scorecard* measures and techniques of data envelopment analysis (DEA).

   DEA is used to assess performance of a group of branches or divisions (e.g. a group of schools, hospitals or universities), where each has the same set of multiple objectives to achieve. Data is fed into a sophisticated computer program which identifies for each objective the best performer among the group. It calculates the comparative performance of the remaining branches against this 'best in class' branch. It can also give an overall performance metric for each branch, based on a composite index of its performance against a notional 'best in class at everything' branch.

   The above techniques are rational, mathematical ones. In their study *A Behavioral Theory of the Firm* (1963), management researchers Cyert and March identify some less obviously rational techniques by which competing objectives are resolved:

   - *Satisficing.* Here the strategy selected is the one that keeps all, or at least the most powerful, stakeholders happy. It usually emerges as a result of negotiation between the competing stakeholders.
   - *Sequential attention.* Stakeholders are kept happy by taking turns to get their objectives realised. Therefore staff may get a large pay rise every three years but, in between, pay remains static while dividends are paid.
   - *Side payments.* Where particular stakeholders' objectives cannot be addressed, they are compensated in another way. For example, a shareholder may be compensated for a low profit by a higher dividend, or a local community may have a new leisure centre built by a company whose new superstore will inevitably increase noise and traffic congestion in the area.
   - *Exercise of power.* Where management are deadlocked due to competing objectives, this is often resolved by one or more powerful figures using their power to force through their preferred option.

At this stage it will be worth going back ot our earlier discussion about stakeholders and the management of stakeholders. Please remember in your answers that strategies that do meet the approval of the most powerful stakeholders are unlikely to be successful. An organisation ignores them at its peril!

1.9 Summary

This chapter has looked at the role of mission and objectives in the strategy process. The key points to remember are:

- according to the rational view of strategy, mission and objectives are its starting point and also provide the basis for performance measurement to assist its implementation and control;
- a resource-based approach criticises this and argues that objectives should be set after the corporate appraisal in order to encourage the exploitation and development of core competences;
- the existence of stakeholders means that missions and objectives are often formulated to satisfy key stakeholder groups in addition to just shareholders;
- concerns of social responsibility and business ethics also affect the mission and objectives of the firm and may dilute the importance of shareholder wealth as a primary objective;
- not-for-profit organisations are a very clear example of where stakeholder power and the lack of an overriding financial objective can affect the process of strategy formulation and control;
- competing objectives arise from all these causes and management may employ a variety of rational and behavioural techniques to resolve them.

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Revision Questions

1

Question 1

Router plc, a mining company, has said in its mission statement that it will 'endeavour to make the maximum possible profit for its shareholders while recognising its wider responsibilities to society'.

Router plc has an opportunity to mine for gold in a remote and sparsely populated area. The mining process proposed, in this instance, means that all vegetation will be removed from the land concerned; after mining has finished, there will remain substantial lagoons full of poisonous water for at least 100 years. The mining process is a profitable one, given the current world price of gold. However, if the company were to reinstate the mined land, the process would be extremely unprofitable. The company has received permission from the government to carry out the mining. The few local residents are opposed to the mining.

Requirements

(a) Discuss the extent to which Router plc's mission statement is contradictory. **(5 marks)**

(b) Explain how Router plc could establish a procedure whereby its wider responsibilities to society could be routinely considered when making strategic decisions. **(8 marks)**

(c) Advise Router plc how it could deal with strategies that present a conflict of objectives. **(6 marks)**

(d) Discuss the ethical dimensions of the decision to mine for gold. **(6 marks)**

(**Total marks = 25**)

Question 2

A publicly-funded department within a local administrative authority provides a health advisory service to its local community. This is not a hospital. Its function is purely advisory in respect of preventive medicine and focuses on good health promotion and prevention of accidents and illness.

In recent years, the funding for this service has been reduced in real terms, requiring greater levels of efficiency to be provided. The manager of the service has recognised the need to make economies. Despite receiving criticisms and complaints from the local administrative authority's elected representatives, the manager has reduced the level of service provision in an attempt to remain within budget. However, there has been no reduction in the staffing level which accounts for about 80 per cent of expenditure.

Last year, an independent public audit report criticised the management of the service. The report focused on the fact that the service overspent its budget, was considered to be inefficient in its methods of delivery, and wasted resources allocated to it. The report went on to state that according to annual performance statistics, there was a decline in the numbers of people using the service. It concluded that the service was failing to operate economically, efficiently or effectively. The result of this was that the local administrative authority reduced the funding still further and gave the manager a written warning that the whole service would be reviewed if there was not an improvement in this financial year. The manager has responded by making further cuts to the service, but has protected the staffing levels. It is projected that the service will remain just within its budget allocation this year.

Requirement

Discuss the reasons why the service has received criticism.

Explain how the manager can improve the effectiveness and efficiency of the service while ensuring that it remains economic and within its allocated budget. **(25 marks)**

Solutions to Revision Questions

1

✓ Solution 1

- This question tackles the problem of a mission statement with particular reference to the social responsibility of a firm if there is a conflict between profitability and pollution.
- In part (a), note that the mission statement uses the term 'profit', a short-term measure, rather than 'shareholder wealth', the presumed economic objective of businesses. This allows you to contrast the conflict of social responsibility with profit in the short run, while using the sustainable enterprise to indicate that in the long run the interests of shareholders and society may not be in conflict.

(a) The mission statement that Router plc has published states that the firm aims to make the 'maximum possible profit'. It is quite common for objectives of this kind to be included in mission statements. In addition, the 'wider responsibilities to society' are recognised. This company objective is difficult to measure and there will be instances where the maximisation of profit on behalf of the shareholders conflicts with 'wider responsibilities to society'. The gold-mining project provides an example of such a conflict. It is expected to provide a profitable opportunity, but will result in 'substantial lagoons full of poisonous water for at least 100 years'.

In the short run this reveals a significant conflict between the interests of the shareholders and the public, particularly those living in the vicinity of the proposed mine. While it is often possible to reduce adverse environmental effects, these remedies will involve the business in costs that will reduce the profit available for distribution to the shareholders.

However, theories of the sustainable enterprise suggest that in the long run the following of socially responsible policies may safeguard shareholder wealth. Router requires that the authorities grant it operating licences and that shareholders continue to hold its shares. If it develops a reputation as a 'dirty firm', both may change their minds. This would cause a fall in both profits and share price. This would of course be a fall in shareholder wealth.

(b) There are various ways that social responsibility may be incorporated into the firm's decisions:

1. *Include costs of environmental restoration in project appraisals*. It is essential that the economic costs of a project are incorporated into the project evaluation. It is usual for a firm to include all relevant financial costs in a project evaluation, but it is also important that the effect of the investment should be considered. In this example, Router must include the cost of reinstatement in its calculations. This will result in the rejection of the project, as it does not meet the profitability criterion.

2. *Include social responsibility in the firm's mission and objectives.* It is necessary that policy decisions of this type are widely publicised within the firm to ensure that all managers are aware that the environmental factors must be incorporated into all decisions. Router has a commitment in its mission statement and there should be a written undertaking given by each manager that social issues will be taken into account.
3. *Employ outside consultants to advise on, or audit, decisions.* The appointment of a person either from within the firm or an outside consultant to monitor the position could be a useful method of implementing the environmental policy. It is possible that managers could neglect the 'wider responsibilities', especially if they are under pressure to boost the results of the company. In this situation, there may be a temptation to understate the costs by omitting the cost of coping with the 'wider responsibilities to society'. A procedure, therefore, should be introduced to ensure that the environmental effects are properly considered and this should include the regular use of outside 'experts' or impartial non-executive directors to assess the environmental effects before decisions are taken within the company.
4. *Develop a social consultation panel.* Router could convene a panel of stakeholder representatives to act as a consultative committee to discuss its decisions. In this case the inclusion of local people and environmentalists on such a panel would point up the issues mentioned in the case.

(c) It is usual for an organisation to have a number of objectives. It is common to find that the objectives conflict and a profit-maximisation objective will always be compromised by any other objective which reduces the revenue received or increases the cost of an organisation. Furthermore such conflicts may arise from the fact that organisations are led by a group of managers and therefore the conflicting personal agendas of each must be considered.

Methods of dealing with this include:

1. *Establish a hierarchy of objectives.* By prioritising objectives and scoring alternative projects against them, it becomes possible for management to choose the option with the highest weighted score. This one will best meet its overall objectives.
2. *Satisficing.* Where the conflict of objectives means that no single objective can be maximised, management may decide to adopt the course of action that is most acceptable to all by giving each stakeholder group something of what it wants. In this case perhaps to dig the mine but also provide some small amount of environmental restitution so that some of the damage is averted.
3. *Sequential attention.* This involves giving each stakeholder group's interests consideration over time, though not necessarily for every project. The effect is to keep them on board. In this case perhaps the mine will abandoned because the consequences are so great, but the next project, with lesser environmental damage, will be adopted. The environmentalists on the management team will feel that they have achieved something.
4. *Side payments.* These are compensatory payments to buy acquiescence. In this case perhaps quality housing might be provided for the labour force which would remain after the works had finished. This could be pointed to as some compensation for the environmental damage and population displacement.

(d) In an article in the August 1992 edition of *CIMA Student*, the author identified common features and issues of ethical questions:

- different perceived long- and short-term advantages and disadvantages;
- advantages to one group compared with disadvantages for another;
- issues of public responsibility and the accountant's duty as a professional;
- difficult implementation problems.

The principal ethical issues in mining are:

1. *The use of non-renewable resources.* The mining operation results in a non-replaceable asset being extracted from the mine. This deprives both present owners and future generations. It is, therefore, important to ensure that proper and equitable compensation is provided to the original owners of the resources. Moreover, the resources extracted should not be wasted or used for frivolous purposes out of consideration for future generations.
2. *The use of power in the negotiations.* The negotiations will raise a number of issues which will bring an ethical component to the negotiations. In the negotiations, it is important that the profit motive does not cause the developer to act improperly and exploit the present owner of the mining rights. Where the country is poor, it is too easy to give inadequate return for the value extracted.
3. *The environmental damage that will remain.* 'Lagoons full of poisonous water for at least 100 years' is clearly not an acceptable outcome for society. Router has an ethical responsibility to minimise the effect of this pollution. It would appear to be essential for the company to develop a plan to deal with the problem. It is likely to reduce the profitability of the project, as there are bound to be significant costs to treat the effluent, but to minimise the effect would appear to be the minimum responsibility of the company.
4. *Impacts on the quality of life of local residents.* The project must consider the effect of the mining operation on the local residents. Although they may benefit from the establishment of the mine in the area in which they live, it is likely that the pollution will also affect them. It is essential that Router explains the steps which will be introduced to minimise the effects on the local environment. This may reassure local residents that the company is adopting a responsible attitude towards the ethical aspects of the mining operation in their area.
5. *Safety of processes.* Mining is an industry noted for its poor safety record. Router must ensure that it conforms to best practice in the safety measures it follows, which may be more stringent than the legal minimums in the country of operation.

☑ Solution 2

The advisory service has been criticised for overspending its budget, inefficient delivery of services and wastage of resources. There are severe criticisms of the manager of the organisation and so it is essential that changes are implemented if the service is to continue.

It is essential that the whole method of operation is reconsidered. This will necessitate a review of its economy, efficiency and effectiveness. It is very important for revised strategy that the nature of the organisation's cost is analysed. It is stated that about 80 per cent of the total expenditure is related to the staff costs. It is therefore essential that this aspect of the problem is tackled at an early stage. The manager has obviously avoided this 'difficult' decision, as it is likely to lead to problems with the staff employed at the advisory service.

However, it is clear that major cost savings can only be achieved by tackling the area in which most of the resources are used. It appears that the manager is ineffective and is protecting the staff by not addressing the problems that arise from the high staff costs of the organisation.

At the outset, the overall aims and objectives of the service should be established. What does the local administrative authority expect from this department? Are the aims and objectives of the managers of the advisory service in line with those of authority? This is extremely important and the managers must ensure that views of all the stakeholders are known and incorporated as far as possible into the strategic planning process. Also, the managers must ensure that the methods of assessing performance are appropriate.

It is essential that the managers of the health authority service prepare a strategic plan that is focused and co-ordinated on the goals of both the health authority service and the local administrative authority. At the outset, it may be useful to initialise a zero-based budgeting exercise to establish the overall goals and the alternative courses of action that could be implemented at different levels of funding. In general terms, the economy, efficiency and effectiveness of the organisation must be reviewed.

The *economy* of the operation must be determined. It is important that the review considers if the organisation is using the minimum resources required to provide the present level of services. This might require comparisons of the costs with similar organisations in different locations. Although it is always difficult to measure the output in several companies, it is essential that these basic comparisons are undertaken. The situation faced by the advisory service is typical, as it will probably be difficult to use the number of consultations as the measure of output. The time and resources needed for each consultation may differ significantly and so perhaps a different measure should be developed.

The *efficiency* of the advisory service must be considered. The question to be asked is whether or not the resources are being used in an appropriate manner. The inputs required to achieve the outputs of the unit must be considered. This is also very subjective, as the output of an advisory service cannot be ascertained accurately. In essence, it is trying to assess the impact of the advice provided by the advisory service. This will be a difficult task, but it is essential to measure the output in relation to the input of resources.

Finally, the *effectiveness* of the advisory service must be considered. The review must establish that the outcomes are meeting the objectives of the organisation. To a large extent, the nature of the objectives that are identified at the outset will affect the extent to which the organisation is considered to be effective in reaching its objectives. This will also be problematic, as the objectives will be difficult to quantify.

Once these different aspects of the problem have been carefully thought about, it will be possible to review the different strategies that could be adopted. The effect of each strategy will have to be measured in terms of its impact on both the advisory service and the general public who will benefit from the advice that is available. Initially, it may be appropriate for a zero-based budgeting exercise to be undertaken to consider the alternative courses of action that could be undertaken with the resources that are available.

It would be advisable for the managers to undertake a benchmarking exercise to ensure that the levels of cost and service can be compared with the inputs and outputs of similar service providers. This may provide insights of 'good practice' and enable the efficiency of the advisory service to be reviewed and recommendations made to attempt to meet the expectations of both the elected representatives of the administrative authority, the independent auditor, the employees and the public who use the service.