The Purpose And Objectives Of A Business

by Peter Drucker in *The Essential Drucker*

Asked what a business is, the typical businessman is likely to answer, "An organization to make a profit."

The typical economist is likely to give the same answer.

This answer is not only false, it is irrelevant. ...

The prevailing economic theory of the mission of business enterprise and behavior, the maximization of profit—which is simply a complicated way of phrasing the old saw of buying cheap and selling dear—may adequately explain how Richard Sears operated.

But it cannot explain how Sears, Roebuck or any other business enterprise operates, or how it should operate.

The concept of profit maximization is, in fact, meaningless.

The danger in the concept of profit maximization is that it makes profitability appear a myth. ...

Profit and profitability are, however, crucial—for society even more than for the individual business.

Yet profitability is not the purpose of, but a limiting factor on 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. ...

13 If archangels instead of businessmen sat in directors' chairs, they would still have to be concerned with profitability, despite their total lack of personal interest in making profits. ...

14 The root of the confusion is the mistaken belief that the motive of a person—the so-called profit motive of the businessman—is an explanation of his behavior or his guide to right action.

15 Whether there is such a thing as a profit motive at all is highly doubtful.

16 The idea was invented by the classical economists to explain the economic reality that their theory of static equilibrium could not explain.

17 There has never been any evidence for the existence of the profit motive, and we have long since found the true explanation of the phenomena of economic change and growth which the profit motive was first put forth to explain. ...

18 It is irrelevant for an understanding of business behavior, profit, and profitability, whether there is a profit motive or not.

19 That Jim Smith is in business to make a profit concerns only him and the Recording Angel.

20 It does not tell us what Jim Smith does and how he performs.

21 We do not learn anything about the work of a prospector hunting for uranium in the Nevada desert by being told that he is trying to make his fortune.

22 We do not learn anything about the work of a heart specialist by being told that he is trying to make a livelihood, or even that he is trying to benefit humanity.

23 The profit motive and its offspring maximization of profits are just as irrelevant to the function of a business, the purpose of a business, and the job of managing a business. ...

24 In fact, the concept is worse than irrelevant: it does harm.

25 It is a major cause of the misunderstanding of the nature of profit in our society and of the deep-seated hostility to profit, which are among the most dangerous diseases of an industrial society.

26 It is largely responsible for the worst mistakes of public policy—in this country as well as in Western Europe—which are squarely based on the failure to understand the nature, function, and purpose of business enterprise.

27 And it is in large part responsible for the prevailing belief that there is an inherent contradiction between profit and a company's ability to make a social contribution.

28 Actually, a company can make a social contribution only if it is highly profitable. ...

29 To know what a business is, we have to start with its purpose.

30 Its purpose must lie outside of the business itself.

31 In fact, it must lie in society since business enterprise is an organ of society.

32 There is only one valid definition of business purpose: to create a customer. ...

33 Markets are not created by God, nature, or economic forces but by businesspeople.

34 The want a business satisfies may have been felt by the customer before he or she was offered the means of satisfying it.

35 Like food in a famine, it may have dominated the customer's life and filled all his waking moments, but it remained a potential want until the action of businesspeople converted it into effective demand.

36 Only then is there a customer and a market.

37 The want may have been unfelt by the potential customer; no one knew that he wanted a Xerox machine or a computer until these became available.

38 There may have been no want at all until business action created it—by innovation, by credit, by advertising, or by salesmanship.

39 In every case, it is business action that creates the customer. ...

40 It is the customer who determines what a business is.

41 It is the customer alone whose willingness to pay for a good or for a service converts economic resources into wealth, things into goods.

42 What the customer buys and considers value is never just a product.

43 It is always a utility, that is, what a product or service does for him.

44 *The Purpose of a Business*

45 Because its purpose is to create a customer, the business enterprise has two—and only these two—basic functions: marketing and innovation. ...

46 Despite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses.

47 “Consumerism” proves this.

48 For what consumerism demands of business is that it actually market.

49 It demands that business start out with the needs, the realities, the values, of the customers.

50 It demands that business define its goal as the satisfaction of customer needs.

51 It demands that business base its reward on its contribution to the customer.

52 That after twenty years of marketing rhetoric consumerism could become a powerful popular movement proves that not much marketing has been practiced.

53 Consumerism is the “shame of marketing.”

54 But consumerism is also the opportunity of marketing.

55 It will force businesses to become market-focused in their actions as well as in their pronouncements.

56 Above all, consumerism should dispel the confusion that largely explains why there has been so little real marketing.

57 When managers speak of marketing, they usually mean the organized performance of all selling functions.

58 This is still selling.

59 It still starts out with “our products.”

60 It still looks for “our market.”

61 True marketing starts out the way Sears starts out—with the customer, his demographics, his realities, his needs, his values.

62 It does not ask, What do we want to sell?

63 It asks, What does the customer want to buy?

64 It does not say, This is what our product or service does.

65 It says, These are the satisfactions the customer looks for, values, and needs. ...

66 Indeed, selling and marketing are antithetical rather than synonymous or even complementary. ...

67 There will always, one can assume, be the need for some selling.

68 But the aim of marketing is to make selling superfluous.

69 The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. ...

70 Marketing alone does not make a business enterprise.

71 In a static economy there are no business enterprises.

72 There are not even businesspeople.

73 The middleman of a static society is a broker who receives his compensation in the form of a fee, or a speculator who creates no value. ...

74 A business enterprise can exist only in an expanding economy, or at least in one that considers change both natural and acceptable.

75 And business is the specific organ of growth, expansion, and change. ...

76 The second function of a business is, therefore, innovation—the provision of different economic satisfactions.

77 It is not enough for the business to provide just any economic goods and services; it must provide better and more economic ones.

78 It is not necessary for a business to grow bigger; but it is necessary that it constantly grow better. ...

79 Innovation may result in a lower price—the datum with which the economist has been most concerned, for the simple reason that it is the only one that can be handled by quantitative tools.

80 But the result may also be a new and better product, a new convenience, or the definition of a new want. ...

81 The most productive innovation is a different product or service creating a new potential of satisfaction, rather than an improvement.

82 Typically this new and different product costs more—yet its overall effect is to make the economy more productive. ...

83 The antibiotic drug costs far more than the cold compress, which was all yesterday's physician had to fight pneumonia. ...

84 Innovation may be finding new uses for old products.

85 A salesman who succeeds in selling refrigerators to Eskimos to prevent food from freezing would be as much of an innovator as if he had developed brand-new processes or invented a new product.

86 To sell Eskimos a refrigerator to keep food cold is finding a new market; to sell a refrigerator to keep food from getting too cold is actually creating a new product.

87 Technologically there is, of course, only the same old product; but economically there is innovation. ...

88 Above all, innovation is not invention.

89 It is a term of economics rather than of technology.

90 Nontechnological innovations—social or economic innovations—are at least as important as technological ones. ...

91 In the organization of the business enterprise, innovation can no more be considered a separate function than marketing.

92 It is not confined to engineering or research but extends across all parts of the business, all functions, all activities.

93 It cannot be confined to manufacturing.

94 Innovation in distribution has been as important as innovation in manufacturing; and so has been innovation in an insurance company or in a bank.

95 Innovation can be defined as the task of endowing human and material resources with new and greater wealth-producing capacity. ...

96 Managers must convert society's needs into opportunities for profitable business.

97 That, too, is a definition of innovation.

98 It should be stressed today, when we are so conscious of the needs of society, schools, health-care systems, cities, and environment. ,,,

99 Today's business enterprise (but also today's hospital or government agency) brings together a great many men of high knowledge and skill, at practically every level of the organization.

100 But high knowledge and skill also mean decision-impact on how the work is to be done and on what work is actually being tackled. ,,,

101 As a result, decisions affecting the entire business and its capacity to perform are made at all levels of the organization, even fairly low ones.

102 Risk-taking decisions—

103 what to do and what not to do;

104 what to continue work on and what to abandon;

105 what products, markets, and technologies to pursue with energy and what markets, products, and technologies to ignore

106 —are in the reality of today's business enterprise made every day by a host of people of subordinate rank, very often by people without traditional managerial title or position, e. g., research scientists, design engineers, product planners, and tax accountants. ,,,

107 Every one of these men and women bases their decisions on some, if only vague, theory of the business.

108 Every one, in other words, has an answer to the question, What is our business and what should it be?

109 Unless, therefore, the business itself—and that means its top management—as thought through the question and formulated the answer—or answers—to it, the decision-makers in the business, will decide and act on the basis of different, incompatible, and conflicting theories.

110 They will pull in different directions without even being aware of their divergences.

111 But they will also decide and act on the basis of wrong and misdirecting theories of the business.

112 Common vision, common understanding, and unity of direction and effort of the entire organization require definition of "what our business is and what it should be." ...

113 Nothing may seem simpler or more obvious than to know what a company's business is.

114 A steel mill makes steel, a railroad runs trains to carry freight and passengers, an insurance company underwrites fire risks, and a bank lends money.

115 Actually, What is our business? is almost always a difficult question and the right answer is usually anything but obvious. ...

116 The answer to the question, What is our business? is the first responsibility of top management. ...

117 That business purpose and business mission are so rarely given adequate thought is perhaps the single most important cause of business frustration and business failure.

118 Conversely, in outstanding businesses such as the Telephone Company or Sears, success always rests to a large extent on raising the question, What is our business? clearly and deliberately, and on answering it thoughtfully and thoroughly. ...

119 With respect to the definition of business purpose and business mission, there is only one such focus, one starting point.

120 It is the customer.

121 The customer defines the business.

122 A business is not defined by the company's name, statutes, or articles of incorporation.

123 It is defined by the want the customer satisfies when he or she buys a product or a service.

124 To satisfy the customer is the mission and purpose of every business.

125 The question, What is our business? can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market.

126 All the customer is interested in are his or her own values, wants, and reality.

127 For this reason alone, any serious attempt to state "what our business is" must start with the customer's realities, his situation, his behavior, his expectations, and his values. ...

128 Who is the customer? is thus the first and most crucial question to be asked in defining business purpose and business mission.

129 It is not an easy, let alone an obvious, question.

130 How it is being answered determines, in large measure, how the business defines itself. ...

131 The consumer—that is, the ultimate user of a product or a service—is always a customer.

132 But there is never the customer; there are usually at least two—sometimes more.

133 Each customer defines a different business, has different expectations and values, buys something different. ...

134 Most businesses have at least two customers.

135 The rug and carpet industry has both the contractor and the homeowner for its customers.

136 Both have to buy if there is to be a sale.

137 The manufacturers of branded consumer goods always have two customers at the very least: the housewife and the grocer.

138 It does not do much good to have the housewife eager to buy if the grocer does not stock the brand.

139 Conversely, it does not do much good to have the grocer display merchandise advantageously and give it shelf space if the housewife does not buy. ...

140 It is also important to ask, Where is the customer?

141 One of the secrets of Sears's success in the 1920s was the discovery that its old customer was now in a different place: the farmer had become mobile and was beginning to buy in town. ...

142 The next question is, What does the customer buy? ...

143 The Cadillac people say that they make an automobile, and their business is called the Cadillac Motor Division of General Motors.

144 But does the man who buys a new Cadillac buy transportation, or does he buy primarily prestige?

145 Does the Cadillac compete with Chevrolet, Ford, and Volkswagen?

146 Nicholas Dreystadt, the German-born service mechanic who took over Cadillac in the Great Depression years of the 1930s, answered: "Cadillac competes with diamonds and mink coats.

147 The Cadillac customer does not buy 'transportation' but 'status.'

148 "This answer saved Cadillac, which was about to go under.

149 Within two years or so, it made it into a major growth business despite the depression. ...

150 Most managements, if they ask the question at all, ask, What is our business? when the company is in trouble.

151 Of course, then it must be asked.

152 And then asking the question may, indeed, have spectacular results and may even reverse what appears to be irreversible decline.

153 To wait until a business—or an industry—is in trouble is playing Russian roulette.

154 It is irresponsible management.

155 The question should be asked at the inception of a business—and particularly for a business that has ambitions to grow.

156 The most important time to ask seriously, 'What is our business? is when a company has been successful. ...

157 Success always makes obsolete the very behavior that achieved it.

158 It always creates new realities.

159 It always creates, above all, its own and different problems.

160 Only the fairy tale ends, "They lived happily ever after." ...

161 It is not easy for the management of a successful company to ask, What is our business?

162 Everybody in the company then thinks that the answer is so obvious as not to deserve discussion.

163 It is never popular to argue with success, never popular to rock the boat. ...

164 Sooner or later even the most successful answer to the question, 'What is our business? becomes obsolete.

165 Very few definitions of the purpose and mission of a business have anything like a life expectancy of thirty, let alone fifty, years.

166 To be good for ten years is probably all one can normally expect. ...

167 In asking, What is our business? management therefore also needs to add, And what will it be?

168 What changes in the environment are already discernible that are likely to have high impact on the characteristics, mission, and purpose of our business? and

169 How do we now build these anticipations into our theory of the business, into its objectives, strategies, and work assignments? ...

170 Again the market, its potential and its trends, is the starting point.

171 How large a market can we project for our business in five or ten years—assuming no basic changes in customers, in market structure, or in technology?

172 And, what factors could validate or disprove those projections? ...

173 The most important of these trends is one to which few businesses pay much attention: changes in population structure and population dynamics.

174 Traditionally businessmen, following the economists, have assumed that demographics are a constant.

175 Historically this has been a sound assumption.

176 Populations used to change very slowly except as a result of catastrophic events, such as major war or famine.

177 This is no longer true, however.

178 Populations nowadays can and do change drastically, in developed as well as in developing countries. ...

179 The importance of demographics does not lie only in the impact population structure has on buying power and buying habits, and on the size and structure of the workforce.

180 Population shifts are the only events regarding the future for which true prediction is possible. ...

181 Management needs to anticipate changes in market structure resulting from changes in the economy, from changes in fashion or taste, and from moves by competition.

182 And competition must always be defined according to the customer's concept of what product or service he buys and thus must include indirect as well as direct competition. ...

183 Finally, management has to ask which of the consumer's wants are not adequately satisfied by the products or services offered him today.

184 The ability to ask this question and to answer it correctly usually makes the difference between a growth company and one that depends for its development on the rising tide of the economy or of the industry.

185 But whoever is content to rise with the tide will also fall with it.

186 *What Should Our Business Be?*

187 What will our business be? aims at adaptation to anticipated changes.

188 It aims at modifying, extending, and developing the existing, ongoing business. ...

189 But there is need also to ask, What should our business be?

190 What opportunities are opening up or can be created to fulfill the purpose and mission of the business by making it into a different business? ...

191 Businesses that fail to ask this question are likely to miss their major opportunity. ...

192 Next to changes in society, economy, and market as factors demanding consideration in answering the question What should our business be? comes, of course, innovation, one's own and that of others. ...

193 Just as important as the decision on what new and different things to do is planned, systematic abandonment of the old that no longer fits the purpose and mission of the business, no longer conveys satisfaction to the customer or customers, no longer makes a superior contribution. ...

194 An essential step in deciding what our business is, what it will be, and what it should be is, therefore, systematic analysis of all existing products, services, processes, markets, end uses, and distribution channels.

195 Are they still viable?

196 And are they likely to remain viable?

197 Do they still give value to the customer?

198 And are they likely to do so tomorrow?

199 Do they still fit the realities of population and markets, of technology and economy?

200 And if not, how can we best abandon them—or at least stop pouring in further resources and efforts?

201 Unless these questions are being asked seriously and systematically, and unless managements are willing to act on the answers to them, the best definition of "what our business is, will be, and should be," will remain a pious platitude.

202 Energy will be used up in defending yesterday.

203 No one will have the time, resources, or will to work on exploiting today, let alone to work on making tomorrow. ...

204 Defining the purpose and mission of the business is difficult, painful, and risky.

205 But it alone enables a business to set objectives, to develop strategies, to concentrate its resources, and to go to work.

206 It alone enables a business to be managed for performance. ...

207 The basic definitions of the business, and of its purpose and mission, have to be translated into objectives.

208 Otherwise, they remain insights, good intentions, and brilliant epigrams that never become achievement. ...

209 1. Objectives must be derived from "what our business is, what it will be, and what it should be."

210 They are not abstractions.

211 They are the action commitments through which the mission of a business is to be carried out, and the standards against which performance is to be measured.

212 Objectives, in other words, represent the fundamental strategy of a business. ...

213 2. Objectives must be operational.

214 They must be capable of being converted into specific targets and specific assignments.

215 They must be capable of becoming the basis, as well as the motivation, for work and achievement. ...

216 3. Objectives must make possible concentration of resources and efforts.

217 They must winnow out the fundamentals among the goals of a business so that the key resources of men, money, and physical facilities can be concentrated.

218 They must, therefore, be selective rather than encompass everything. ...

219 4. There must be multiple objectives rather than a single objective. ...

220 Much of today's lively discussion of management by objectives is concerned with the search for the "one right objective."

221 This search is not only likely to be as unproductive as the quest for the philosophers' stone; it does harm and misdirects.

222 To manage a business is to balance a variety of needs and goals.

223 And this requires multiple objectives. ...

224 5. Objectives are needed in all areas on which the survival of the business depends.

225 The specific targets, the goals in any area of objectives, depend on the strategy of the individual business.

226 But the areas in which objectives are needed are the same for all businesses, for all businesses depend on the same factors for their survival.

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228 A business must first be able to create a customer.

229 There is, therefore, need for a marketing objective.

230 Businesses must be able to innovate or else their competitors will render them obsolete.

231 There is need for an innovation objective.

232 All businesses depend on the three factors of production of the economist, that is, on human resources, capital resources, and physical resources.

233 There must be objectives for their supply, their employment, and their development.

234 The resources must be employed productively and their productivity has to grow if the business is to survive.

235 There is need, therefore, for productivity objectives.

236 Business exists in society and community and, therefore, has to discharge social responsibilities, at least to the point where it takes responsibility for its impact upon the environment.

237 Therefore, objectives in respect to the social dimensions of business are needed. ...

238 Finally, there is need for profit—otherwise none of the objectives can be attained.

239 They all require effort, that is, cost.

240 And they can be financed only out of the profits of a business.

241 They all entail risks; they all, therefore, require a profit to cover the risk of potential losses.

242 Profit is not an objective but it is a requirement that has to be objectively determined in respect to the individual business, its strategy, its needs, and its risks. ...

243 Objectives, therefore, have to be set in these eight key areas:

244 ▪ Marketing

245 ▪ Innovation

246 ▪ Human resources

247 ▪ Financial resources

248 ▪ Physical resources

249 ▪ Productivity

250 ▪ Social responsibility

251 ▪ Profit requirements

252 Objectives are the basis for work and assignments. ...

253 They determine the structure of the business, the key activities that must be discharged, and, above all, the allocation of people to tasks.

254 Objectives are the foundation for designing both the structure of the business and the work of individual units and individual managers. ...

255 Objectives are always needed in all eight key areas.

256 The area without specific objectives will be neglected.

257 Unless we determine what will be measured and what the yardstick of measurement in an area will be, the area itself will not be seen. ...

258 The measurements available for the key areas of a business enterprise are still haphazard by and large.

259 We do not even have adequate concepts, let alone measurements, except for market standing.

260 For something as central as profitability, we have only a rubber yardstick; and we have no real tools at all to determine how much profitability is necessary.

261 In respect to innovation and, even more, to productivity, we hardly know more than that something ought to be done.

262 In the other areas—including physical and financial resources—we are reduced to statements of intentions; we do not possess goals and measurements for their attainment. ...

263 However, enough is known about each area to give a progress report at least.

264 Enough is known for each business to go to work on objectives. ...

265 We know one more thing about objectives: how to use them. ...

266 If objectives are only good intentions, they are worthless.

267 They must be transformed into work.

268 And work is always specific, always has—or should have—clear, unambiguous, measurable results, a deadline and a specific assignment of accountability. ...

269 But objectives that become a straitjacket do harm.

270 Objectives are always based on expectations.

271 And expectations are, at best, informed guesses.

272 Objectives express an appraisal of factors that are largely outside the business and not under its control.

273 The world does not stand still. ...

274 The proper way to use objectives is the way an airline uses schedules and flight plans.

275 The schedule provides for the 9:00 A.M. flight from Los Angeles to get to Boston by 5:00 P.M. But if there is a blizzard in Boston that day, the plane will land in Pittsburgh instead and wait out the storm.

276 The flight plan provides for flying at thirty thousand feet and for flying over Denver and Chicago.

277 But if the pilot encounters turbulence or strong headwinds, he will ask flight control for permission to go up another five thousand feet and to take the Minneapolis-Montreal route.

278 Yet no flight is ever operated without schedule and flight plan.

279 Any change is immediately fed back to produce a new schedule and flight plan.

280 Unless 97 percent or so of its flights proceed on the original schedule and flight plan—or within a very limited range of deviation from either—a well-run airline gets another operations manager who knows his job. ...

281 Objectives are not fate; they are directions.

282 They are not commands; they are commitments.

283 They do not determine the future; they are means to mobilize the resources and energies of the business for the making of the future.

284 *Marketing Objectives*

285 Marketing and innovation are the foundation areas in objective setting. It is in these two areas that a business obtains its results. It is performance and contribution in these areas for which a customer pays.

286 It is somewhat misleading to speak of a marketing objective. Marketing performance requires a number of objectives. For example, it is geared toward:

287 - Existing products and services in existing and present markets

288 - Abandonment of "yesterday" in product, services, and markets

289 - New products and services for existing markets

290 - New markets

291 - The distributive organization

292 - Service standards and services performance

293 - Credit standards and credit performance

294 Many books have been written about every one of these areas.

295 But it is almost never stressed that objectives in these areas can be set only after two key decisions have been made: the decision on concentration, and the decision on market standing. ...

296 Archimedes, one of the great scientists of antiquity, is reported to have said; “Give me a place to stand on, and I can lift the universe off its hinges.”

297 The place to stand on is the area of concentration.

298 It is the area that gives a business the leverage that lifts the universe off its hinges.

299 The concentration decision is, therefore, crucial; it converts, in large measure, the definition of “what our business is” into meaningful operational commitment. ...

300 The other major decision underlying marketing objectives is that on market standing.

301 One common approach is to say, We want to be the leader.

302 The other one is to say, We don’t care what share of the market we have as long as sales go up.

303 Both sound plausible, but both are wrong. ...

304 Obviously, not everybody can be the leader.

305 One has to decide in which segment of the market, with what product, what services, what values, one should be the leader.

306 It does not do much good for a company’s sales to go up if it loses market share, that is, if the market expands much faster than the company’s sales do. ...

307 A company with a small share of the market will eventually become marginal in the marketplace, and thereby exceedingly vulnerable. ...

308 Market standing, regardless of the sales curve, is therefore essential.

309 The point at which the supplier becomes marginal varies from industry to industry.

310 But to be a marginal producer is dangerous for long-term survival. ...

311 There is also a maximum market standing above which it may be unwise to go—even if there were no antitrust laws.

312 Market domination tends to lull the leader to sleep; monopolists flounder on their own complacency rather than on public opposition.

313 Market domination produces tremendous internal resistance against any innovation and thus makes adaptation to change dangerously difficult. ...

314 There is also well-founded resistance in the marketplace to dependence on one dominant supplier.

315 Whether it is the purchasing agent of a manufacturing company, the procurement officer in the air force, or the housewife, no one likes to be at the mercy of the monopoly supplier. ...

316 Finally, the dominant supplier in a rapidly expanding, especially a new, market is likely to do less well than if it shared that market with one or two other major and competing suppliers.

317 This may seem paradoxical—and most businesspeople find it difficult to accept.

318 But the fact is that a new market, especially a new major market, tends to expand much more rapidly when there are several suppliers rather than only one.

319 It may be very flattering to a supplier's ego to have 80 percent of a market.

320 But if as a result of domination by a single source, the market does not expand as it otherwise might, the supplier's revenues and profits are likely to be considerably lower than they would be if two suppliers shared a fast-expanding market.

321 Eighty percent of 100 is considerably less than 50 percent of 250.

322 A new market that has only one supplier is likely to become static at 100.

323 It will be limited by the imagination of the one supplier who always knows what his product or service cannot or should not be used for.

324 If there are several suppliers, they are likely to uncover and promote markets and end uses the single supplier never dreams of.

325 And the market might grow rapidly to 250.

326 Du Pont seems to have grasped this.

327 In its most successful innovations, Du Pont retains a sole-supplier position only until the new product has paid for the original investment.

328 Then Du Pont licenses the innovation and launches competitors deliberately.

329 As a result, a number of aggressive companies start developing new markets and new uses for the product.

330 Nylon would surely have grown much more slowly without Du Pont-sponsored competition.

331 Its markets are still growing, but without competition it would probably have begun to decline in the early 1950s, when newer synthetic fibers were brought on the market by Monsanto and Union Carbide in the United States, by Imperial Chemicals in Great Britain, and by AKU in Holland. ...

332 The market standing to aim at is not the maximum but the optimum.

333 *Innovation Objective*

334 The innovation objective is the objective through which a company makes operational its definition of "what our business should be." ...

335 There are essentially three kinds of innovation in every business: innovation in product or service; innovation in the marketplace and consumer behavior and values; and innovation in the various skills and activities needed to make the products and services and to bring them to market.

336 They might be called respectively product innovation, social innovation, and managerial innovation. ...

337 The problem in setting innovation objectives is measuring the relative impact and importance of various innovations.

338 But how are we to determine what weighs more: a hundred minor but immediately applicable improvements in packaging a product, or one fundamental chemical discovery that after ten more years of hard work may change the character of the business altogether?

339 A department store and a pharmaceutical company will answer this question differently; but so may two different pharmaceutical companies.

340 *Resources Objectives*

341 A group of objectives deals with the resources a business needs in order to be able to perform, with their supply, their utilization, and their productivity. ...

342 All economic activity, economists have told us for two hundred years, requires three kinds of resources: land, that is, products of nature; labor, that is, human resources; and capital, that is, the means to invest in tomorrow.

343 The business must be able to attract all three and to put them to productive use.

344 A business that cannot attract the people and the capital it needs will not last long. ...

345 The first sign of decline of an industry is loss of appeal to qualified, able, and ambitious people.

346 The decline of the American railroads, for instance, did not begin after World War II—it only became obvious and irreversible then.

347 The decline actually set in around the time of World War I. Before World War I, able graduates of American engineering schools looked for a railroad career.

348 From the end of World War I on—for whatever reason—the railroads no longer appealed to young engineering graduates, or to any educated young people. ...

349 In the two areas of people and capital supply, genuine marketing objectives are therefore required.

350 The key questions are: 'What do our jobs have to be to attract and hold the kind of people we need and want?

351 What is the supply available on the job market?

352 And, what do we have to do to attract it?

353 Similarly, 'What does the investment in our business have to be, in the form of bank loans, long-term debts or equity, to attract and hold the capital we need? ...

354 Resource objectives have to be set in a double process.

355 One starting point is the anticipated needs of the business, which then have to be projected on the outside, that is, on the market for land, labor, and capital.

356 But the other starting point is these "markets" themselves, which then have to be projected onto the structure, the direction, the plans of the business.

357 *Productivity Objectives*

358 Attracting resources and putting them to work is only the beginning.

359 The task of a business is to make resources productive.

360 Every business, therefore, needs productivity objectives with respect to each of the three major resources, land, labor, and capital; and with respect to overall productivity itself. ...

361 A productivity measurement is the best yardstick for comparing managements of different units within an enterprise, and for comparing managements of different enterprises. ...

362 All businesses have access to pretty much the same resources.

363 Except for the rare monopoly situation, the only thing that differentiates one business from another in any given field is the quality of its management on all levels.

364 The first measurement of this crucial factor is productivity, that is, the degree to which resources are utilized and their yield. ,,,

365 The continual improvement of productivity is one of management's most important jobs.

366 It is also one of the most difficult; for productivity is a balance among a diversity of factors, few of which are easily definable or clearly measurable. ,,,

367 Labor is only one of the three factors of production.

368 And if productivity of labor is accomplished by making the other resources less productive, there is actually loss of productivity. ,,,

369 Productivity is a difficult concept, but it is central.

370 Without productivity objectives, a business does not have direction.

371 Without productivity measurements, it does not have control.

372 *The Social Responsibilities Objectives*

373 Only a few years ago managers as well as economists considered the social dimension so intangible that performance objectives could not be set.

374 We have now learned that the intangible can become very tangible indeed.

375 Lessons we have learned from the rise of consumerism, or from the attacks on industry for the destruction of the environment, are expensive ways for us to realize that business needs to think through its impacts and its responsibilities and to set objectives for both. ...

376 The social dimension is a survival dimension.

377 The enterprise exists in a society and an economy.

378 Within an institution one always tends to assume that the institution exists in a vacuum.

379 And managers inevitably look at their business from the inside.

380 But the business enterprise is a creature of a society and an economy, and society or economy can put any business out of existence overnight.

381 The enterprise exists on sufferance and exists only as long as the society and the economy believe that it does a necessary, useful, and productive job. ...

382 That such objectives need to be built into the strategy of a business, rather than merely be statements of good intentions, needs to be stressed here.

383 These are objectives that are needed not because the manager has a responsibility to society.

384 They are needed because the manager has a responsibility to the enterprise.

385 ## *Profit as a Need and a Limitation*

386 Only after the objectives in the above key areas have been thought through and established can a business tackle the question, How much profitability do we need?

387 To attain any of the objectives entails high risks.

388 It requires effort, and that means cost.

389 Profit is, therefore, needed to pay for attainment of the objectives of the business.

390 Profit is a condition of survival.

391 It is the cost of the future, the cost of staying in business.

392 A business that obtains enough profit to satisfy its objectives in the key areas is a business that has the means of survival.

393 A business that falls short of the profitability demands made by its key objectives is a marginal and endangered business.

394 Profit planning is necessary.

395 But it is planning for a needed minimum profitability rather than for that meaningless shibboleth "profit maximization."

396 The minimum needed may well turn out to be a good deal higher than the profit goals of many companies, let alone their actual profit results.