Course Name: Business Fundamentals for Entrepreneurs – Part 1 – Internal Operations

Professor Name: Professor Devdip Purkayastha

Department Name: Management & Entrepreneurship

Institute Name: Indian Institute of Technology Bombay

Week – 02

Lecture – 03

Week 2 Module 3 Part 3

So, now we have talked about the purpose, values, principles, vision, mission of a company. And these are the softer aspects of how a company is bonded together and works for the long term successfully. But the other side of company functioning now are the hard performance, the goals. So, how do company goals look like? There are three or four key aspects to the goals. And let me talk you through and show you one or two examples. So, if you look at the screen on the top, you will find that the first point is that goals need to be 360 degree, which means a goals cannot be just one dimensional, just sales or just about good satisfaction of customers.

It has to cover the different aspects of business. It has to be 360 degrees. And therefore, if you look at the screen, you will see financial goals, sales, profits, costs, cash, etc. Customer goals, customer satisfaction goals, are customers buying more or less? How much are they buying? So, these are the customer goals.

The employee goals you may have great customer goals and great financial goals, but if the customers are not happy or the employees are not happy, you will have a problem. So, the employee goals can be basic number of employees, increase in the number of employees. Because if your business is growing so much, your employees cannot be growing too much more because then you lose money, because employees cost money. But at the same time, apart from the numbers and the growth in the numbers, are the employees happy? So, the best companies do employee satisfaction survey. So, these are employee goals.

Shareholder goals. People who are investing in the company would like to see a return on their investment. If you are listed, the stock price of the company in the share market have to go up. If it is unlisted, which means it is a private company, the valuation of the company should go up. Going down the list, growth goals.

Should you grow 5%, 10%, 20%? Should you double in 3 years, triple in 5 years? These are growth goals. Now, we come to process goals, which are the operating goals, quality management, accuracy of numbers, financial reporting, uptime of the machine, downtime of the machine, pollution goals. These are all process goals. Innovation goals. Companies need new products to grow, new services to grow, new products and services to compete in the market.

So, innovation goals, which means maybe I launch two new products every year, or that 20% of my revenue each year should come from new products. These are innovation goals. And then you have social and environmental goals. How much pollution, carbon, are you creating? Or global warming are you contributing to as a company from your factories, from your operations? If you are a chemical plant, are you polluting the rivers with the effluents, which is the waste chemical that comes out? If you are a beverage company, are you depleting groundwater because you are taking water out from the ground? So these are environmental goals.

Social goals. Are you doing something for the society in and around where you are operating? So, if you have a factory and there are villages around it, are you doing something for your immediate community? So these are all the different aspects of a business and therefore they are called 360 degree goals. Now, assuming that you have started setting goals, how do you set good goals? And remember an acronym called SMART. Here is what SMART goals mean. S is for Specific Goals, specificity of the goal. It's not enough to say I will grow my revenues.

You have to say I will grow my revenue by 20% in one year's time. That's specific. The goals have to be measurable. It cannot be, oh, employees will feel nice about us. That's not measurable.

But there has to be a survey, an employee satisfaction survey, and you say my employee satisfaction survey, the output of it must go up from 74% satisfaction level as per the survey to 80% satisfaction level next year. So specific and measurable. Achievable. It also has to be achievable because otherwise the employees will feel demotivated. If you say I will double my revenues, my sales, in three years or five years, maybe it is possible.

But if you say I will double my revenue next week, it's specific, it's measurable, but it's unachievable. And employees will give up. So it has to be achievable. So that's SMA. It has to be relevant.

It has to be relevant to the business. If you are, let's say, in the business of computer chip manufacturing, your goal should be related to maybe your core purpose and your core business. It's no point for a chip manufacturing company to spend too much money, too much time, too much effort, and set too many goals for, let's say, an allied technology such as artificial intelligence or machine learning if it's not related to the core chip manufacturing business. And P is for time-bound. So it's no point saying I will double my revenue.

There's no time limit to it. So time bound means I'll double my revenue in three years or five years, or I'll grow 15 percent in one year. So that's smart goals. 360-degree goals, smart goals. Is that enough to set goals? And what do you do with those goals? So, if you look at the top of the slide, you'll say what do smart goals help in? Smart goals first helps set direction.

If you say I'll double in two years, it's very different from saying I'll double in five years. To double in two years, you probably need more people, more money, more training, more customers, more supplies, raw material supplies, more production. And your direction will be very different versus if you're doubling in five years. It provides transparency. Everybody gets to know.

Investors get to know. Employees get to know. Suppliers get to know. Okay, these are the goals of the company. So it's transparent.

People know. It improves coordination. Assume that there are no smart goals. Marketing function may assume we'll double in one year. Production may say we'll double in two years. Salesmen will double in five years.

There's no coordination. It establishes accountability because to double a business, everybody has to do their own parts. And all the parts have to add up to the goal of the company. So the goal of the company has to be broken down by function, by division, by almost teams, and by employee. And then once you set goals, you know how to track performance. So if you said I'll grow 100% in three years, you know how you're doing.

Because if you don't have a goal, anything is okay. It also helps identify need for resources and training and whether the gaps and obstacles. So, if you have to double in three years, you probably need more resources and more training, and you'll probably have more obstacles because time is short versus if you're doubling in five years. So you can identify your obstacles, you can find out where the gaps are versus performance, and you can plan your resources and training accordingly. So that's how smart goals help.

How do you deploy smart goals? It's not enough to say only the managing director has set the goal. Nobody else knows then what the goals are. And therefore you have to deploy it in what I call the 5C mechanism. The first is there has to be clarity. The goals themselves have to be clear.

They have to be smart. They have to be clear. They have to be communicated. Everybody needs to know in the company that those are the goals. Not just the company goals but what is my departmental, my divisional, my geography, my team, my own goals.

So, it has to be communicated. It has to be consistent. You cannot keep changing goals after six months or a year. If you say I'll double in three years, you cannot, or it's probably not a good idea, after six months to say, oh, we'll triple in two years versus doubling in three years. People get confused.

Employees get confused. So it has to be clear, it has to be communicated, it has to be consistent. And then the two other Cs, one is around collaboration. Everybody needs to pull together. If the company is going at 100 miles per hour, for example, you cannot have marketing going at 200 miles per hour and, operations going at 50 miles per hour and finance going at 10 miles per hour.

So, there has to be coordination. Everybody has to move at the same pace, in the same direction. And then is the commitment, which means people have to commit to that. And the incentive mechanism, which is the bonuses and the variable pay that companies give to their employees, have to support those goals. So these are the five Cs of deploying smart goals from the top, set by the board or the managing director or the CEO or the vice presidents and the presidents, and it goes right down to the frontline person in sales, in operations, in finance or HR or marketing.

That's deployment. And in good companies, if you go there, you'll find that everybody, every employee knows the same goals and what the team members, other team members, other functions goals are, and also what's the goal for the top, for the entire company. So, where do you find these goals? And good companies will put them up in the website and declare it to the world, and a lot of it is legally required as well. So, I talked about L&T before. They will put their company reports on the website, and I encourage each of you to actually visit the L&T website and look at some of the reports that are there. And for every company, Tata company or Mahindra company or Godrej company or international companies, Microsoft or Procter & Gamble, DHL, you can go to the website and look up the section called the annual reports.

It will probably come under downloads, investor reports, etc. And just to give you one small example of how company reports or results could look like, this is an Infosys results for the latest quarter as of the day of my recording today. And you'll see that there are many criteria, but these are only a few. There can be many more, but this is a top few. So, if you can look top left, you will see the revenue growth or decline.

You can see which is the goal that they set, what has been the performance. You can look at the attrition rate because companies, especially in the IT services company, sometimes people leave, people come, people grow, more people come in, some people leave, and you can look at the attrition results. And then you look at how much dividend has been paying up, which means shareholders are getting money from the profits that the company has made. And then you look at how much orders that they have got, which is the contract value. This is just a snapshot from that website, but I encourage each of you to go to the Infosys website or, the L&T website or the, Tata or Mahindra Goldridge, or go to any of the global companies' website and look up the results for yourself.

And you'll see how the numbers are. So I have talked across the six topics of today's module, the softer aspects of how a company works, purpose, vision, mission, values, principles, etc., and the hard numbers and goal setting and results declaration by a company. Now we come to the last three-minute reflection, where I encourage each of you to think of a company that you are now working for, or you would like to work for, which is your dream company. Visit the website if it's a listed company. There are many listed companies in India, thousands of them.

Go to your dream company, go to the website, and look up the results section on the website. And if you look at the screen, try to find out from the results section what were the financial goals. What did they say last year for this year, and what are they saying this year for the next year? What are the employee goals? What are the environmental goals? What are the other goals that they have announced and they're reporting back? And against these goals, look up what the results are. So if you do the three reflections that I've requested you to do in this module, you would have crafted your own personal purpose statement, you would have looked at various purposes, visions, missions, principles, and values of different companies, and you have looked at the hard number of the various companies' functions. So, I urge you to now reflect on the questions that you see on the slide.

Thank you. . . . So, with that, we come to the end of the module. Namaskar. Thank you. Till the next module. .