

THE LONG RANGE OBJECTIVES AND TARGETS AND THE RELATIONSHIP BETWEEN THEM: A SURVEY OF THE TOP GREEK COMPANIES

Abstract

This paper studies the existing relationship between the strategic objectives and targets of the top most successful Greek companies. It identifies those objectives and targets most commonly regarded as important by the CEOs of the leading Greek companies. It also attempts to show whether there is a close relationship between the most commonly used objectives and targets, taking into consideration the definition that the strategic targets of the firm are simply the quantification or the numerical expression of its objectives. It concludes that the vast majority of the leading Greek companies adopt objectives that have to do with their long run profitability and / or their long run survival, and choose specific targets that really quantify their long run objectives.

Περίληψη

Η παρούσα έρευνα εξετάζει την υπάρχουσα σχέση μεταξύ των στρατηγικών σκοπών και στόχων των πιο πετυχημένων ελληνικών επιχειρήσεων. Αναγνωρίζει εκείνους τους σκοπούς και στόχους που θεωρούνται οι πιο σημαντικοί από τις ανώτατες διοικήσεις των επιχειρήσεων αυτών και δείχνει την σχέση που υπάρχει μεταξύ τους, παίρνοντας υπόψη την θεωρητική άποψη ότι οι στόχοι αποτελούν την ποσοτική έκφραση των σκοπών. Καταλήγει στο συμπέρασμα ότι η μεγάλη πλειοψηφία των πετυχημένων ελληνικών επιχειρήσεων υιοθετούν σκοπούς που έχουν να κάνουν με την μακροπρόθεσμη κερδοφορία και την επιβίωσή τους και επιλέγουν στόχους οι οποίοι πραγματικά ποσοτικοποιούν τους μακροπρόθεσμους σκοπούς τους.

JEL : L₂₁

key words: Strategic Management, business objectives of the firm, short-term targets.

1. Introduction

The purpose of this paper is twofold: (a) to identify those objectives and targets most commonly regarded as important by the CEOs of the leading Greek companies and (b) to examine the existing relationship between them, taking into consideration the common practice and theory, which defines the strategic targets of any firm as being the quantification or the numerical expression of its objectives (J. Argenti, 1980: 43). Many studies attempted to cover above two areas previously, especially in USA and UK: (Oakley, Larkins and Winkle, 1999; Hesebarth, 1996; Brian, 1993; Stright, 1993; St. John and Rue, 1991; Sanbri, 1987; Tagiuri and Davis, 1991). However, no previous research has been reported on this field in Greece.

This research could provide very interesting insight to both academics and practitioners: (a) For academics, because they will contribute further to the knowledge pool, by giving answers, and from empirical evidence to the theoretical issues of company's objectives and targets and their relationship between them, (b) For practitioners, because the empirical evidence will help them to understand better this important issue of company's objectives and targets and the relationship between them.

The paper is trying to give answers by analysing the results of a questionnaire sent to the top 500 Greek companies, with annual returns well above the average of the industry they belong: From the 500 companies that received this questionnaire only 116 (23,20%) companies responded.

It is found that the most often used objectives by the Greek leading companies are the following three:

1. The long-run survival (56.5%, 65 out of 116 companies)
2. The continuous increase of the annual net profits (51.3%, 59 out of 116 companies)
3. The continuous increase of the return on shareholder's capital , ROSC or IRR (39,1%, 45 out of 116 companies)

Similarly, the most common indicators used by the Greek leading companies as their targets and performance measures are the following:

1. The return on investment – ROI (52,6%, 61 out of 116 companies)
2. The gross profit margin (47,4%, 55 out of 116 companies)
3. The net profit margin (47.4%, 51 out of 116 companies)
4. The quality improvement: continuous decrease of default products and / or continuous decrease of sales' returns and / or continuous decrease of the customers' number of complaints (39,7%, 46 out of 116 companies).

This paper is structured as follows: Section two refers to the literature and the empirical evidence concerning the objectives and targets of the companies and their existing relationship. Section three describes the research method adopted. Section four refers to the characteristics of the companies and the

analysis of the research results. Finally, section five includes the research conclusion and the implication that could be drawn from this research.

2. Background

It is a cliché, but nonetheless true, that today's organisations exist in an increasingly competitive and complex world. Strategic management and performance measurement can help the organisation's ability to compete and survive, depending on how these two systems are developed and utilized.

Companies set specific objectives and targets, during the strategic management and performance measurement processes, so as to provide their management team with new insights, into why the system performs the way it does, where it can be improved, and when the system is in control or out of control.

There is plenty of literature describing the most important objectives and targets that firms should employ in their long-range strategic planning process as well as in their performance measurement and improvement process:

We could classify it in two major categories: (a) The literature that describes the financial measures and (b) the literature that describes the non – financial measures. Historically, the first studies were those that asserted the importance and use by the companies of the financial measures. **Profitability** was the first and the most important proposed measure that firms should adopt as their major long term objective in their strategic planning process and their performance measurement and improvement process. A good review of these profitability measures can be found in many books (Argenti, 1980: 36-57 and 191-207; Horrigan, 1960: 284-294; Van Horne, 1980: 7-11; Kaplan 1984: 390-418; Tamminen 1976: 9-11; Brealy and Myers, 1996: 303-313).

In the literature, there is a large variation of different definitions for the profitability of the firm. However, they could be divided into two main categories: (a) Profitability which is determined by accounting numbers and methods, as for example, return on investment (ROI), return on capital employed (ROCE), return on net assets (RONA), return on sales, return per employee etc., and (b) Profitability which is determined by discounted cash flow analysis (DCF) as for example, return on shareholders capital (ROSC) or else the Internal Rate of Return (IRR) of the company's cash flows by which the benefit (income) is exactly as great as the sacrifice (expenses), or, most recently, the shareholders value added – SVA (Rappaport, 1998), which is the net present value (NPV) of the company's annual inflows (incomes) minus the outflows (investments and net working capital expenses) and the economic value added-EVA (Stewart, 1999).

Since the end of 1970's it has been recognised that existing accounting systems can not give an exact solution to managers' strategic decision problems. Accounting information needs to be used with caution and together with other non-financial sources of information (Ryan, Scapens and Theobals, 1992: 53).

Riggs and Felix (1983), for example, proposed the '**Objectives' matrix**' and

later, Kaplan and Norton (1992) have proposed the '**Balanced Scorecard**' framework. Both frameworks are similar and consist of four categories of performance measures or long terms objectives, two with financial and two with non – financial indicators:

- a) Financial measures, concerning the satisfaction of the company's shareholders based on DCF analysis, like the SVA profitability concept.
- b) Internal business processes' measures, mainly efficiency, effectiveness, quality and productivity measures (financial and / or non-financial).
- c) Customer satisfaction measures (non-financial), and
- d) Company's learning and growth measures (mainly non-financial).

S. Sink and T. Tuttle (1989: 171-186) proposed a group of seven criteria (or objectives): Effectiveness, Efficiency, Quality, Productivity, Quality of work life, Innovation, and Profitability.

Nevertheless, both practitioners and academics agree that this topic is still a very common and disturbing one. Common, because the setting of long run objectives and targets is still a puzzle for many top executives in the Greek private sector (not so much in its theoretical but in the practical context). Disturbing, because until now, no empirical research evidence exists for the Greek Companies, that could give us an insight or answer to the questions of (a) what are the long-run objectives and targets most commonly regarded as important by the CEOs and used by their companies, and (b) what is the relationship between their objectives and their targets, or do their setted targets really represent the numerical expression of their objectives ?

3.The method

This research is based on a structured questionnaire, constructed for the purpose of identifying those goals or objectives and targets most commonly regarded as important by the CEOs of the leading Greek companies, and of examining the relationship between them. A number of approaches were used to ensure response quality and to enhance response rate. These collectively constitute a modified version of Dillman's (1978) "total design method". More specifically, the process was organised as follows: First, the research instrument was *pre-tested* twice. In the draft form, it underwent a pre-test with CEOs from five companies. A second pre-test was conducted after in depth discussions with academics, management consultants, and questionnaire design experts. This second pre-test was conducted in another five companies. After some minor modifications the final questionnaire was mailed to the CEO's of the top 500 Greek companies together with a letter explaining the purpose of the study and assuring anonymity, together with a pre-stamped envelope addressed to the researcher. Four weeks after the initial mailing we sent a follow-up mailing that included the same material as the first. The ranking of ICAP Greek Consulting company, which is based on the annual profitability rate (ICAP:1994-1997), was used for classifying the Greek companies and for identifying the top 500 of them.

All these top 500 companies remained on the list from 1994 to 1998, with some small shifts (upwards or downwards) in the ranking. They are the best and most successful Greek companies with returns well above average of the industry they belong to and come from the manufacturing, the construction and the service sectors.

The "mailed questionnaire" approach was used because many similar studies have used mailed questionnaires, instead of interviews, with a response rate between 7 and 20% (Etzioni, 1961; Armitage and Atkinson, 1990; Tagiuri and Davis, 1991), for the identification of the company's objectives but also for the following reasons, which are valid for Greek companies:

- One can receive answers quicker, if the response rate is sufficient.
- Company people answer more freely to an anonymous questionnaire.
- Personal interviews, especially with CEOs, are very difficult to take place.

A total of 116 completed questionnaires were received by the end of May 2000 (a 23,2% response rate). Analysing the data, we compared each answer of the questionnaire with the following characteristics (variables):

- 1) The sector (manufacturing, construction, service) that each company belongs.
- 2) The industry that each company belongs.
- 3) The size of the company according to "the total number of employees".
- 4) The size of the company according to "the total assets it owns".

To test whether our respondents were different from the non-respondents we examined if there were any differences in the answering pattern between early and late respondents. The rationale behind such analysis is that late respondents (i.e., sample firms in the second wave) are more similar to the general population than the early respondents (Armstrong and Overton, 1977). By September 2000, another 25 completed questionnaires were returned but they were not included in the original data set. A thorough analysis of these 25 delayed questionnaires had shown that the answering pattern was very similar to that of the previous 116 companies. In other words, even if the analysis was undertaken again with 141 questionnaires instead of only 116, the results would be, if not identical, very similar indeed. Hence, it appears that non-response bias is not a serious issue in this study.

4. Analysis

The companies that answered the questionnaire have the following characteristics:

- (a) 35 companies (30,20%) are **manufacturing** companies,
7 companies (6,0%) are **construction** companies, and
74 companies (63,80%) are **service** companies.

- (b) 32 companies (32%) are small size, occupying between 1-50 employees, 38 companies (38%) are medium size, occupying between 51-250 employees, and 30 companies (30%) are large size, occupying more than 250 employees.
- (c) 21 companies (21,40%) are small size companies with total assets equal to or less than DRS 1,5 billions (\$1=370 DRS), 42 companies (42,90%) are medium size companies with total assets between DRS 1,5-8,5 billions, and 35 companies (35,70%) are large size companies with total assets more than DRS 8,5 billions.

From the above analysis we could conclude that the sample of the 116 companies is very satisfactory because:

- It includes companies from all three sectors of the Greek economy and from all industries.
- It contains different size companies taking into consideration both criteria: (a) total number of occupied employees and (b) total assets a company possesses.

The vast majority of the Greek companies declared, through their CEOs, that the major objective was **'their long run survival'** (56,5%, 65 companies out of 116). Second and third objective, in their stated preference, was **'the continuous increase of their annual net profits'** (51,3%, 59 companies) and **'the continuous increase of the return on shareholders' capital'** (39,1%, 45 companies), respectively. Finally, 27,0% (31 companies) of the leading Greek companies, have stated that their major objective was **'the continuous decrease of their product cost'**, as well as **'the production of new products and the continuous use of new technology in their production processes'**.

If we examine the answers of the above question in relation to the sector that each company belongs, we could get the following observations:

1. The objective **'long run survival of the company'** was adopted mostly by leading companies of the construction sector (71,4%, 5 out of 7 companies), then follows the leading companies of the manufacturing sector (60%, 21 out of 35 companies) and finally, the leading companies of the service sector (54,8%, 40 out of 73 companies).
2. In the manufacturing and service sectors the majority of the companies prefer the following objectives:
 - (a) **"the continuous increase of their annual net profits"** (57,1%)
 - (b) **"the continuous increase of the returns on shareholders' capital"** (42,9)
 - (c) **"the continuous decrease of the total cost of production"** (42,9%)
 - (d) **"the continuous decrease of the firm's total unit cost"** (37,1%).
3. From all the sample companies, only the companies that belong to the service sector proposed as their major objectives non financial indicators, as for example:

- (a) The continuous increase of the firm's competitiveness (1 out of 73)
- (b) The preservation of the existing employees (1 out of 73).
- (c) The increase of their products' quality (2 out of 73).

Concerning the influence that the size of a company has on the determination of its long – term objectives, we notice the following:

- A. In the first instance, where the size is determined by the "total assets" a company owns, we realise that the size does not influence the objectives of the firms. The only observation we could make is that small size firms prefer as their most important objective **'the continuous increase of the annual net profits'** (60%, 12 out of 20). This is a short run objective and is adopted by small size companies, probably because their cash flow ability is very limited and their strategies depend a lot from their annual results. However, large and medium size companies too, adopt the same objective of 'increase of the annual net profits' as the small size companies at a rate of 57,1% (20 out of 35), and 47,6% (20 out of 42) respectively. Furthermore, large Greek companies prefer as one of their most important objectives **'the continuous increase of the returns on shareholders' capital'** (42,9%, 15 out of 35). The adoption rate of the same objective for the medium size companies is 35,7% (15 out of 42) and for the small size companies 25% (5 out of 20).
- B. When the size is determined by the total number of the occupied employees, then, we could say that it influences, not to a great extent, a company's objectives:
65,8% (25 out of 38) of medium size companies and 53,3% (16 out of 30) of large companies, have answered positively indicating as their most important objective to be **'their long – run survival'**.
Finally, it could be interested to note that small size companies are adopting the objective of **'new products development and the continuous use of new technology in their production processes'**, at a higher rate 32,3% (10 out of 31), than those of medium size, 23,7% (9 out of 38), and large size companies, 26,7% (8 out of 30).

Now, concerning the major indicators that the leading Greek companies are using as long run targets we derived following conclusions:

A large number of the companies use the following financial indicators:

- (a) Return on investment (ROI), 59,6% (61 out of 116).
- (b) Gross Profit Margin, 47,4% (55 out of 116).
- (c) Net Profit Margin, 44% (51 out of 116).

It is interesting to note that a quite satisfactory number of companies use both financial and non-financial indicators:

39,7% (46 out of 116 companies) use the **'continuous improvement of quality'**, but only 0.9 % (1 out of 116) use **'the customers' satisfaction'**, as their

major targets and performance measure, probably because 'customers' satisfaction' is included on the definition of 'continuous quality improvement' as stated in the questionnaire. Furthermore, it is interesting to note that very few companies (15,5%, 18 out of 116) use as long-term targets and performance measures, indicators that are based on discounted cash flow (DCF) techniques, and even fewer (1 out of 116) use new financial indicators, as for example the Economic Value Added (EVA) concept.

If we examine the answers of the above question in relation to the sector that each company belongs, we could notice that the sector does not influence the kind of targets that Greek leading companies are using.

Now, concerning the influence that the size of a company has on the use of indicators as long run targets and performance measures we notice the following:

In the first instance, where the size is determined by the 'total assets' a company owns, we notice that:

(a) **Large** companies use, mostly, the following indicators:

- | | |
|--------------------------------------|--|
| 1. Return on Investment (ROI) | : 62,9% (22 out of 35 large companies) |
| 2. Gross Profit Margin | : 42,9% (15 out of 35) |
| 3. Return on Capital Employed (ROCE) | : 42,9% (15 out of 35) |

(b) **Medium** size companies use mostly the following indicators:

- | | |
|-------------------------------|------------------------|
| 1. Gross Profit Margin | : 59,5% (25 out of 42) |
| 2. Return on Investment (ROI) | : 50,0% (21 out of 42) |
| 3. Net Profit Margin | : 47,6% (20 out of 42) |

(c) **Small** size companies use mostly the following indicators:

- | | |
|--------------------------------------|------------------------|
| 1. Return on Investment (ROI) | : 47,6% (10 out of 21) |
| 2. Continuous improvement of Quality | : 47,6% (10 out of 21) |
| 3. Gross Profit Margin | : 42,9% (9 out of 21) |
| 4. Net Profit Margin | : 42,9% (9 out of 21) |

When size is determined by "the total number of the occupied employees", we get similar results as above.

Furthermore, we wanted to examine the existing relationship between the firms' objectives and targets in the sense of whether the targets set represent the quantification or the numerical expression of its objectives.

For this reason we prepared a cross-tabulation trying to compare the two answers, the one concerning the objectives most commonly used by the leading Greek companies and the other concerning the targets used by the same companies.

From this cross-tabulation we are trying to examine the following:

- (a) How many companies, that have determined specific objective(es),

have stated specific indicators as targets which quantify the determined objective(es)?, and

- (b) How many companies, that have determined specific indicators as targets, are using the proper objective that corresponds to the specific targets?

In other words, we want to examine whether the objectives set by the Greek leading companies coincide with their targets, which simply are trying to quantify those objectives.

- As we've mentioned previously, most of the Greek leading companies are using the **'long run survival'** as their major objective (57,4%, 66 out of 116). Those companies (second column) are using the following indicators as their targets and performance measures (first column):

Indicators (1)	Companies that use as their major objective 'their long run survival' (2)	Companies that use the indicators of column 1 irrespective of their major objective (3)
1. Return on Investment - ROI	56,1 % (37 out of 66)	53,9% (62 out of 116)
2. Net Profit Margin	48,5% (32 out of 66)	44,0% (51 out of 116)
3. Continuous quality improvement (sig. χ^2 = .011)	47,0% (31 out of 66)	39,7% (46 out of 116)
4. Gross Profit Margin	43,9% (29 out of 66)	47,4% (55 out of 116)
5. Return on Capital Employed - ROCE	42,4% (28 out of 66)	35,3% (41 out of 116)
6. Total Productivity Index	39,4% (26 out of 66)	32,8% (38 out of 116)
7. Return on Shareholders' capital - (ROSC) (sig. χ^2 = .005)	6,1% (4 out of 66)	15,5% (18 out of 116)

The third column consists of the companies that use the indicators of column one (1), irrespective of the objectives they adopt.

If we compare columns two and three we come to some very interesting results:

- The Greek leading companies, that use as their major objective **'their long-run survival'**, adopt above indicators (most of them) at a higher percent than the total sample of companies in column three. The biggest percent difference (around 7%) comes from the three indicators **'Continuous Quality improvement'**, **'Return on Capital Employed'**, and **'Total Productivity Index'**.
- From the 46 companies (out of the total sample of 116), that have answered that their major target was 'the continuous quality improvement', 67,4% (31 companies) adopt as their major objective

'their long-run survival'. Similarly, from the companies that have answered that their major target was 'the return on capital employed- (ROCE)', 68,3% (28 out of 41 companies) adopt as their major objective 'their long-run survival'. Finally, from the 38 companies that have answered that their major target was the continuous increase of 'Total productivity Index', 68,4% (26 companies) are trying to secure 'their long-run survival'.

3. Most of the Greek leading companies, that use as their major objective 'their long-run survival', adopt both, **long-term targets** such as : (α) 'continuous quality improvement', (b) 'return on capital employed', (c) 'return on investment', and (d) 'Total Productivity Index', as well as **short-term targets** such as: (a) 'Net Profit Margin', and (b) 'Gross Profit Margin'. Almost all of their performance indicators (or targets) are financial indicators except one, 'the continuous quality improvement'. Very few companies (4 out of 66) adopt as performance indicators (or targets) measures that are based on discounted cash flow (DCF) techniques such as ROSC. No company adopts new proposed DCF indicators based on the concepts of Shareholders Value Added (SVA) or the Economic Value Added (EVA).

- Second most important objective that Greek leading companies adopt (51,3%, 59 out of 116) is '**the continuous increase of their Net Profits**'. These companies (in second column) are using the following indicators as their targets or performance measures (first column):

Indicators (1)	Companies that use as their major objective 'the continuous increase of Net Profits' (2)	Companies that use the indicators of column 1 irrespective of their major objective (3)
1. Net Profit Margin (sig. $\chi^2 = .004$)	57,6 % (34 out of 59)	44,0% (51 out of 116)
2. Gross Profit Margin	55,9% (33 out of 59)	47,4% (55 out of 116)
3. Return on Investment – ROI	45,8% (27 out of 59)	53,4% (62 out of 116)
4. Continuous quality improvement	39,0% (23 out of 59)	39,7% (46 out of 116)
5. Return on Capital Employed – ROCE	35,6% (21 out of 59)	35,3% (41 out of 116)
6. Total Productivity Index (sig. $\chi^2 = .060$)	25,4% (15 out of 59)	32,8% (38 out of 116)
7. Return on Shareholders' capital – (ROSC) (sig. $\chi^2 = .064$)	15,3% (9 out of 59)	15,5% (18 out of 116)

The third column consists of the companies that use the indicators of column one (1) irrespective of the objectives they adopt.

From above table we notice that most of the companies using as their

objective 'the continuous increase of Net Profits', they adopt, mostly, three indicators for the quantification of their objective: (a) 'Net Profit Margin' (57,6% or 34 out of 59 companies) (b) 'Gross Profit Margin' (55,9% or 33 out of 59), and (c) 'Return on Investment' (45,8% or 27 out of 59 companies). All these indicators are financial and taken from the published financial accounts. They are, also, except one 'the Return on Investment-ROI', short-run targets, which match perfectly with the short-run character of the setted objective 'continuous increase of Net Profits'.

There is, however, a 39% (23 out of 59 companies) of companies that use as their indicators 'the continuous quality improvement' and a 25,4% (15 out of 59 companies) that use the 'Total Productivity Index'. The first is a non-financial long-term indicator and the second a financial long-term indicator too.

Furthermore, we notice the following:

1. From the 51, companies in total, that have answered that their major target was 'the Net Profit Margin', 66,7% (34 out of 51) adopt as their major objective 'the continuous increase of Net Profits'.
2. From the 55, companies in total, that have answered that their major target was 'the Gross Profit Margin', 60,0% (33 out of 55) adopt as their major objective 'the continuous increase of Net Profits'.
- The third most important objective that Greek leading companies adopt (39,1%, 45 out of 115) is the 'increase of the return on Shareholders' capital-ROSC'. These companies (in the second column) are using the following indicators as their targets and performance measures (first column):

Indicators (1)	Companies that use as their major objective 'the increase of the return on Shareholders' capital' (2)	Companies that use the indicators of column 1 irrespective of their major objective (3)
1. Return on Investment - ROI (sig. $\chi^2 = .001$)	73,3 % (33 out of 45)	53,4% (62 out of 116)
2. Gross Profit Margin	55,6% (25 out of 45)	47,4% (55 out of 116)
3. Return on Capital Employed - ROCE (sig. $\chi^2 = .003$)	53,3% (24 out of 45)	35,3% (41 out of 116)
4. Net Profit Margin	53,3% (24 out of 45)	44,0% (51 out of 116)
5. Continuous quality improvement	51,1% (23 out of 45)	39,7% (46 out of 116)
6. Total Productivity Index (sig. $\chi^2 = .027$)	44,4% (20 out of 45)	32,8% (38 out of 116)
7. Return on Shareholders' capital-ROSC (sig. $\chi^2 = .027$)	26,7% (12 out of 45) 1	5,5% (18 out of 116)

The third column consists of companies that use the indicators of column one (1) irrespective of the objectives they adopt.

From the above table we notice that most of the companies, using as their major objective **‘the increase of the return on shareholders’ capital’**, adopt, mostly, the following five indicators for the quantification of their objective:

- | | |
|--|---------------------------------|
| a) ‘The return on investment – ROI’ | 73,3 % (33 out of 45 companies) |
| b) ‘The gross profit margin’ | 55,6% (25 out of 45 companies) |
| c) ‘The return on capital employed – ROCE’ | 53,3% (24 out of 45 companies) |
| d) ‘The net profit margin’ | 53,3% (24 out of 45 companies) |
| e) ‘The continuous quality improvement’ | 51,1% (23 out of 45 companies) |

These indicators are all, except one, ‘the continuous quality improvement’, financial indicators based on published financial accounts. They are both, long-term (a, c and e) and short-term (b and d) targets.

It is interesting to note, that, even companies with major objective ‘the continuous increase of the return on shareholders’ capital’, do not use a cash flow indicator, such as the ROSC, SVA or EVA, which quantifies most accurately this objective.

Finally, we notice that 66,7% of the companies (12 out of 18) that use the indicator ‘return on shareholders’ capital–ROSC’ have as their major objective ‘the continuous increase of the return on shareholders’ capital’.

5. Conclusions-Managerial Implications

The results presented earlier lead us to the following conclusions:

1. This research has highlighted the objectives and the targets that the top Greek companies adopt for their firms. The analysis identified the following **most often used objectives**:

- a) The long-run survival
- b) The continuous increase of the annual net profits
- c) The continuous increase of the return on Shareholders’ capital
- d) The continuous decrease of production cost
- e) The production of new products and the continuous use of new technology in the production process.

The **sector and the industry** each leading company belongs to, as well as its size, do not influence the determination of the goals.

Similarly, the analysis identified the following **indicators most often used as company targets and performance measures**:

- (a) The return on investment (ROI).

- (b) The Gross Profit Margin.
- (c) The Net Profit Margin.
- (d) The continuous quality improvement.

The **sector and industry** each leading company belongs to, as well as its size, do not influence the determination of the indicators used as company targets or performance measures.

2. Companies with different objectives are using, more or less, the same indicators as targets. However, for each of the three most important objectives adopted by the top Greek companies, only the following indicators are statistically significant:

Indicators	COMPANIES' MAJOR OBJECTIVE		
	1. Long run Survival	2. Continuous increase of net Profits	3. Continuous increase of the return on Shareholders' capital
1. Return on Investment – ROI			(sig. $\chi^2 = .050$)
2. Net Profit Margin		(sig. $\chi^2 = .004$)	
3. Continuous quality improvement	(sig. $\chi^2 = .011$)		(sig. $\chi^2 = .075$)
4. Gross Profit Margin			
5. Return on Capital Employed – ROCE			(sig. $\chi^2 = .003$)
6. Total Productivity Index		(sig. $\chi^2 = .060$)	(sig. $\chi^2 = .023$)
7. Return on Shareholders' capital – (ROSC)	(sig. $\chi^2 = .005$)	(sig. $\chi^2 = .064$)	(sig. $\chi^2 = .027$)

Concluding we could say the following:

1. Greek leading companies do use indicators that quantify properly their settled major objectives.
2. The majority of these companies, irrespective of their specific major objective, use both financial and non – financial measures, e.g. 'Return on Shareholders' capital–(ROSC)' and 'Continuous quality improvement'.
3. Finally, all Greek leading companies use financial indicators that are based on both, (a) the published accounting data, as for example, ROI, ROCE, and 'Net Profit Margin', and the inter-company accounting (cost) data, as for example, the 'Total Productivity Index', and (b) the discounted cash flow (DCF) method, as for example, 'the return on shareholders' capital'.

However, none of these companies, except one, use indicators that are based on the relatively new concepts of shareholders value added (SVA) or economic value added (EVA).

The implications that could come out of this research may be summarised as follows.

1. **Profitability** is still one of the major objectives for many top Greek leading companies. However, there is a shift of the meaning of profitability from the short – run to the long – run. Even companies with major objective ‘the continuous increase of annual net profits’, use as their targets and performance measures not only short–run indicators, as for example ‘the net profit margin’, or ‘the profitability ratio (Net Profit/Sales)’, but long-run indicators too, as for example the ‘Total Productivity Index’ and the ‘return on shareholders’ capital’.

Moreover, a significant part of these companies give a different meaning in the concept of Profitability using as their major objective ‘the continuous increase of the return on shareholders’ capital’ and quantify this objective with the adoption of both, financial (ROI, ROCE, Total Productivity Index and ROSC) and non–financial indicators, such as the ‘continuous quality improvement’.

2. However, the majority of the top Greek leading companies give a new and totally different meaning to Profitability, if we could say so, using as their major objective ‘**the long run survival**’ of their firm, and quantify this objective with the adoption of two simple but very important indicators:
 - a financial one, based on the DCF method, ‘the return on shareholders’ capital–ROSC’, and
 - a non-financial one, but very useful and promising indeed, ‘the continuous quality improvement’.
3. Not many Greek leading companies use any more, or use alone, financial indicators, as targets and performance measures, that come from the published accounting data, as for example ‘net profit margin’, ROI and ROCE. They prefer financial indicators that come either from inter-company accounting data, as for example the ‘Total Productivity Index’, or from cash flow data using the DCF technique, as for example the ‘return on shareholders’ capital–ROSC’.
4. Academics and consultants should make a bigger effort to give managers to understand the importance of using a complete and modern framework of indicators, as targets and performance measures, consisting of both financial and non–financial measures, as for example the ‘Balanced Scorecard’, proposed by Kaplan and Norton.

Finishing this study we could say that the top Greek companies adopt two different philosophies in the determination of their objectives: (a) almost half of

them adopt the theory or philosophy of the **profitability for the stakeholders** (Freeman, 1984), by adopting the objective of 'long-run survival', which concerns all stakeholders involved with the company, and (b) the rest half adopts the theory or philosophy of the **profitability for the shareholders** (Rapapport, 1998), by adopting the objectives of 'continuous increase of the annual net profits' or 'the continuous increase of the return on shareholders' capital'.

However, if we take a closer look on the indicators used by all of them as targets and performance measures, we could conclude that, practically, most of the top Greek companies are in favour of the theory or philosophy of the shareholders.

6. References

- Armstrong, J.S. and Overton, T. (1977): "Estimating nonresponse bias in mail surveys", *Journal of Marketing Research*, 14: 396-402.
- Argenti, J. (1980): *Systematic Corporate Planning*, Surrey: Thomas Nelson and Sons.
- Bready, R. A. and Myers, S. C. (1996): *Principles of Corporate Finance*, London: McGraw – Hill International.
- Dillman, D. (1978): *Mail and Telephone Surveys: The Total Design Method*, New York: Wiley.
- Etzioni, A (1961): *Complex organizations: A Sociological Reader*, New York: Holt.
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*, New York: Pitman.
- Heselbarth, Rob (1996): "Reed Manufacturing makes 100th years", *Contractor*, **43** (10): 66-67.
- Horrigan, J. O. (1980): "Financial Ratio Analysis: an Historical Perspective", *The Accounting Review*, **XLII** (2): 284-294.
- Kaplan, R. S (1984): "The evolution of Management Accounting", *The Accounting Review*, **LIX** (3): 390-418.
- Kaplan, R. S. and Norton, D. P (1992): "The balanced scorecard: Measured that drive performance", *Harvard Business Review*, January– February 1992: 71-79.
- Manguire, B. (1993): "Focused performance: Managing things that really matter", *Industrial Engineering*, **25** (11): 64-68.
- Oakley, E.F.III, Larkins, E.R and Winkle, G.M. (1999): "Issues in managing the multinational corporation", *CPA Journal*, **69** (1): 49-52.
- Rapapport, A. (1998). *Creating Shareholder Value*, New York: The Free Press.
- Riggs, J. L. and Felix, G. H., (1983): *Productivity by Objectives*, New York: Prentice – Hall Inc.
- Ryan, B., Scapes, R. W. and Theobald, M. (1992): *Research Method and Methodology in Finance and Accounting*, London: Academic Press.

- Santori, P. R. (1987): "Manufacturing performance in the 1990's: Measuring for excellence", *Journal of Accountancy*, **164** (5): 141-147.
- Sink, S. and Tuttle, T. (1989): *Planning and Measurement in your organization of the future*, Norcross, Georgia: Industrial Engineering and Management Press.
- St. John, C.H. and Rue, L.W. (1991): "Coordinating Mechanisms, Consensus between marketing and manufacturing groups, and market place performance", *Strategic Management Journal*, **12** (7): 549-555.
- Stright, J. F. Jr. (1993): "Strategic goals guide HRMS development", *Personnel Journal*, **72** (9): 68-78.
- Tagruri, R. and Davis, J.A. (1991): "On the Goals of Successful Family Companies", *Owner Managed*, **21** (3): 218-230.
- Tamminen, R. (1976): "A theoretical study in the profitability of the firm", *Vaasa, Universitas Economica Wasaensis*, Acta Wasaensia, No. 5, Economics No. 1.
- Van Horne, J.C. (1980): *Financial Management and Policy – 5th edition*, London: Prentice Hall International.