Cambridge

AS - Level

Business studies

CODE: (9609)

Unit 01- Chapter 04

Business objectives

Introduction

Clear business objectives are crucial for any size, from small sole-trader businesses to partnership organizations. Owners often have a clear vision, but disagreements can waste time. Limited companies often state their objectives in their Memorandum of Association but lack strategic detail. This chapter emphasizes the importance of business objectives and their various forms for effective staff management.

A clear and focused business aim directs, controls, and reviews the success of activities. An appropriate strategy is necessary to direct resources towards the goal, and this strategy should be constantly reviewed. Organizations' aims and strategies change over time, and poor plans can lead to failure to achieve their objectives.

The most effective business objectives usually meet the following 'SMART' criteria:

S – Specific: Objectives should focus on what the business does and should apply directly to that business. A hotel may set an objective of 75% bed occupancy over the winter period. This objective is specific to this business.

M – Measurable: Objectives that have a quantitative value are likely to prove to be more effective targets for directors and staff to work towards. For instance, to increase sales in the south-east region by 15% this year.

A – Achievable: Setting objectives that are almost impossible in the time frame given will be pointless. They will demotivate staff who have the task of trying to reach these targets. So objectives should be achievable.

R – Realistic and relevant: Objectives should be realistic when compared with the resources of the company and should be expressed in terms relevant to the people who have to carry them out. So informing a factory cleaner about 'increasing market share' is less relevant than a target of reducing usage of cleaning materials by 20%.

T – Time-specific: A time limit should be set when an objective is established – by when does the business expect to increase profits by 5%? Without a time limit, it will be impossible to assess whether the objective has actually been met.

Aims, mission statements, objectives and strategies – what do they all mean?

The links between these concepts can be made clearer by studying this 'hierarchy of objectives' (Figure 4.1), which shows, visually, the balance and dependencies between the different stages in the setting of aims and objectives.

Corporate aims are long-term goals a business aims to achieve, expressed in its core central purpose. These aims can be customer-based or market-based, and are designed to provide guidance to the entire organization, not just a part of it. Examples include Daimler Mercedes-Benz's goal to achieve profit growth in the automobile industry, and other companies.

Figure 4.1 Hierarchy of objectives

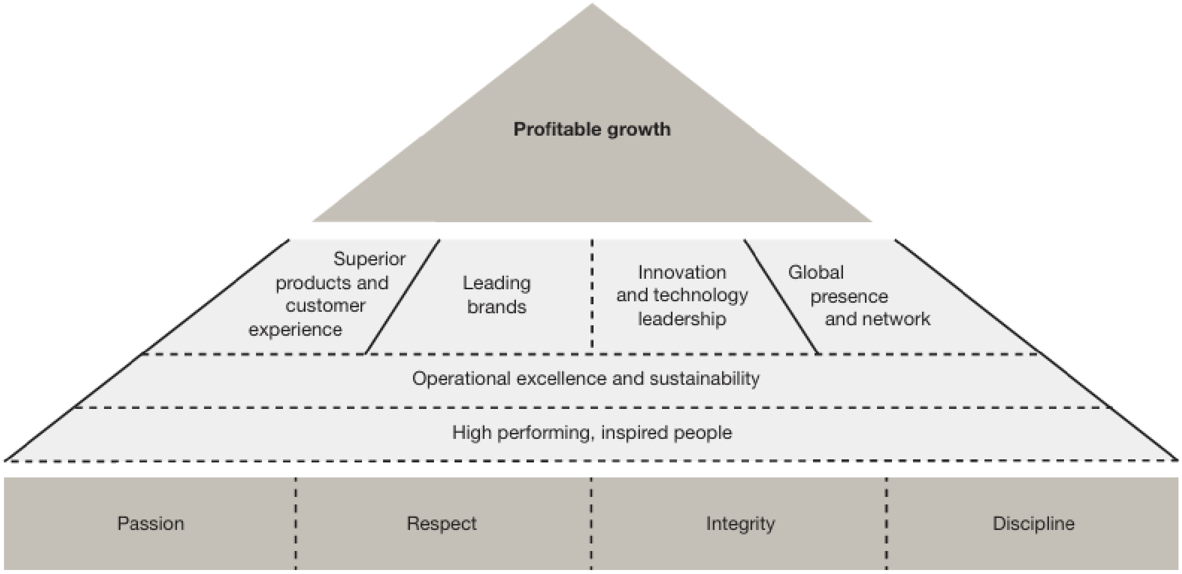

Figure 4.2 All of Daimler's objectives lead to the long-term aim of profitable growth

So, what benefi ts fl ow from establishing corporate aims?

■ They become the starting point for the entire set of objectives on which effective management is based. This is shown by their position at the top of the hierarchy of objectives in Figure 4.1.

■ Corporate aims can help develop a sense of purpose and direction for the whole organisation if they are clearly and unambiguously communicated to the workforce.

■ They allow an assessment to be made, at a later date, of how successful the business has been in attaining its goals.

■ Aims provide the framework within which the strategies or plans of the business can be drawn up. A business without long-term corporate aims is likely to drift from event to event without a clear plan of action for the future. This will quickly become obvious to the workforce and customers, who may respond in adverse ways.

New car and truck designs are an important strategy to help Daimler achieve its long-term aim

Mission statements

Mission statements are an attempt to condense the central purpose of a business's existence into one statement. They are not concerned with specific, quantifiable goals, but try to sum up – often in rather woolly language, it must be said – the aims of the business in a motivating and appealing way.

KEY TERM

Mission statement: a statement of the business's core aims, phrased in a way to motivate employees and to stimulate interest by outside groups.

Evaluation of mission statements

Which of the mission statements above is the most effective, do you think? Do you agree that some of them are interchangeable, that is, some of them could apply to any of the businesses? If you do, then this is one of the potential limitations of such statements. Some of the arguments used in favour of mission statements seem to be they:

■ Quickly inform groups outside the business what the central aim and vision are

■ Can prove motivating to employees, especially where an organisation is looked upon, as a result of its mission statement, as a caring and environmentally friendly body – employees will then be associated with these positive qualities

■ Often include moral statements or values to be worked towards, and these can help to guide and direct individual employee behaviour at work

■ Are not meant to be detailed working objectives, but they help to establish in the eyes of other groups 'what the business is about'.

On the other hand, these statements are often criticised for being:

■ Too vague and general, so that they end up saying little that is specific about the business or its future plans
■ Based on a public relations exercise to make stakeholder groups feel good about the organization
■ Virtually impossible to really analyse or disagree with
■ Often rather woolly and general, so it is common for two completely different businesses to have very similar mission statements.

Corporate objectives

The aim and mission statements of a business share the same problems – they lack specific detail for operational decisions and they are rarely expressed in quantitative terms. They need to be turned into goals or targets quite specific to each business that can themselves be broken down into strategic departmental targets.

Common corporate objectives

1. Profit maximisation

All the stakeholders in a business are working for reward. Profits are essential for rewarding investors in a business and for financing further growth.

However, there are serious limitations with this corporate objective:
■ The focus on high short-term profits may encourage competitors to enter the market and jeopardise the long term survival of the business.

■ Many businesses seek to maximise sales in order to secure the greatest possible market share, rather than to maximise profits. The business would expect to make a target rate of profit from these sales.

■ The owners of smaller businesses may be more concerned with ensuring that leisure time is safeguarded. The issues of independence and retaining control may assume greater significance than making higher profits.

■ Most business analysts assess the performance of a business through return on capital employed rather than through total profit figures.

■ Profit maximisation may well be the preferred objective of the owners and shareholders, but other stakeholders will give priority to other issues. Business managers cannot ignore these.

■ In practice it is very diff icult to assess whether the point of profit maximisation has been reached, and constant changes to prices or output to attempt to achieve it may well lead to negative consumer reactions.

2. Profit satisficing

This means aiming to achieve enough profit to keep the owners happy but not aiming to work flat out to earn as much profit as possible. Th is objective is often suggested as being common among owners of small businesses who wish to live comfortably but do not want to work longer and longer hours in order to earn even more profit.

3. Growth

The growth of a business – usually measured in terms of sales or value of output – has many potential benefits for the managers and owners. Larger fi rms will be less likely to be taken over and should be able to benefit from economies of scale.

Business objectives based on growth do have limitations:

■ Expansion that is too rapid can lead to cash-flow problems
■ Sales growth might be achieved at the expense of lower profit margins
■ Larger businesses can experience diseconomies of scale
■ Using profits to finance growth – retained earnings – can lead to lower short-term returns to shareholders
■ Growth into new business areas and activities – away from the firm's core activities – can result in a loss of focus and direction for the whole organisation.

4. Increasing market share
Closely linked to overall growth of a business is the market share it enjoys within its main market. Although the two are usually related, it is possible for an expanding business to suffer market share reductions if the market is growing at a faster rate than the business itself.

Benefits resulting from having the highest market share – being the brand leader – include:

■ retailers will be keen to stock and promote the best-selling brand
■ profit margins offered to retailers may be lower than competing brands as the shops are so keen to stock it – this leaves more profit for the producer
■ effective promotional campaigns are often based on 'buy our product with confidence – it is the brand leader'.

5. Survival

This is likely to be the key objective of most new business start-ups. The high failure rate of new businesses means that to survive for the first two years of trading is an important aim for entrepreneurs.

6. Corporate social responsibility (CSR)

KEY TERM

Corporate social responsibility: this concept applies to those businesses that consider the interests of society by taking responsibility for the impact of their decisions and activities on customers, employees, communities and the environment.

Should firms have objectives about social, environmental and ethical issues? Increasingly, there is general agreement that fi rms must adopt a wider perspective when setting their objectives and not just be aiming for profits or expansion. One reason for this is the much greater adverse publicity given to business activity that is perceived as being damaging to stakeholder groups and the wider world.

7. Maximising short-term sales revenue. This could benefit managers and staff when salaries and bonuses are dependent on sales revenue levels. However, if increased sales are achieved by reducing prices, the actual profits of the business might fall.

8. Maximising shareholder value This could apply to public limited companies and directs management action towards taking decisions that would increase the company share price and dividends paid to shareholders. Th ese targets might be achieved by pursuing the goal of profit maximisation.

Relationship between mission, objectives, strategy and tactics

Aims and objectives provide the basis and focus for business strategies – the long-term plans of action of a business that focus on achieving its aims. Without a clear objective, a manager will be unable to make important strategic decisions. These links between objectives and strategies are shown in Figure 4.3

Figure 4.3 Links between objectives and strategies

Objectives and decision-making

Effective decision-making requires clear objectives. Business managers cannot decide on future plans of action – strategies – if they are uncertain of which direction they want to take the business in. T h is essential link between decisions and objectives is illustrated in the decision making framework model shown in Figure 4.4

The stages in this decision making framework are:

1. Set objectives.
2. Assess the problem or situation.
3. Gather data about the problem and possible solutions.
4. Consider all decision options.
5. Make the strategic decision.
6. Plan and implement the decision.
7 Review its success against the original objectives.

How corporate objectives might change

There are many examples of businesses changing their corporate objectives over time. These are some of the reasons for this:

1. A newly formed business may have satisfied the 'survival' objective by operating for several years, and now the owners wish to pursue objectives of growth or increased profit.

2. The competitive and economic environment may change, so the entry into the market of a powerful rival or the start of an economic recession may lead a firm to switch from growth to survival as its main aim – or even just to revise its objectives for sales and profits downwards.

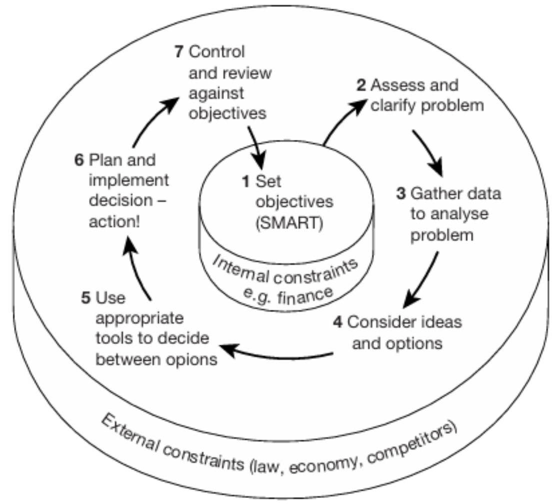

Figure 4.4 A decision-making framework

3. A short-term objective of growth in sales or market share might be adapted to a longer-term objective of maximising profits from the higher level of sales.

Factors that determine the corporate objectives of a business

Corporate culture

Clearly, not all businesses pursue the same objectives. T h ere are several factors that influence the nature of the objectives established for any business. Chief among these is the culture of the organisation. This can be defined as the code of behaviour and attitudes that influence the decision-making style of the managers and other employees of the business.

The size and legal form of the business

Owners of small businesses may be concerned only with a satisfactory level of profit – called 'satisficing'. Larger businesses, perhaps controlled by directors rather than owners, such as most public limited companies, might be more concerned with rapid business growth in order to increase the status and power of the managers. This is often a result of a development known as the 'divorce between ownership and control', which nearly always exists in large companies with professional directors who do not own it.

Public-sector or private-sector businesses

State-owned organisations tend not to have profit as a major objective. The aims of these organisations can vary greatly, but when the service they provide is not charged for, such as education and health services, then a financial target would be inappropriate.

Figure 4.5 Influences on corporate objectives

The number of years the business has been operating

Newly formed businesses are likely to be driven by the desire to survive at all costs – the failure rate of new fi rms in the first year of operation is very high. Later, once well established, the business may pursue other objectives, such as growth and profit.

Divisional, departmental and individual objectives

Refer to Figure 4.6. Once corporate objectives have been established they need to be broken down into specific targets for separate divisions, departments and, ultimately, individuals. Corporate objectives relate to the whole organisation.

Th ese divisional objectives must be set by senior managers to ensure:

■ Coordination between all divisions – if they do not work together, the focus of the organisation will appear confused to outsiders and there will be disagreements between departments

■ Consistency with corporate objectives

■ That adequate resources are provided to all successful achievement of the objectives.

Management by objectives (MBO)

If this process is undertaken aft er discussion and agreement with personnel at each level of the organisation, then it can be a very effective way of delegating authority and motivating staff .

KEY TERM

Management by objectives: a method of coordinating and motivating all staff in an organisation by dividing its overall aim into specific targets for each department, manager and employee.

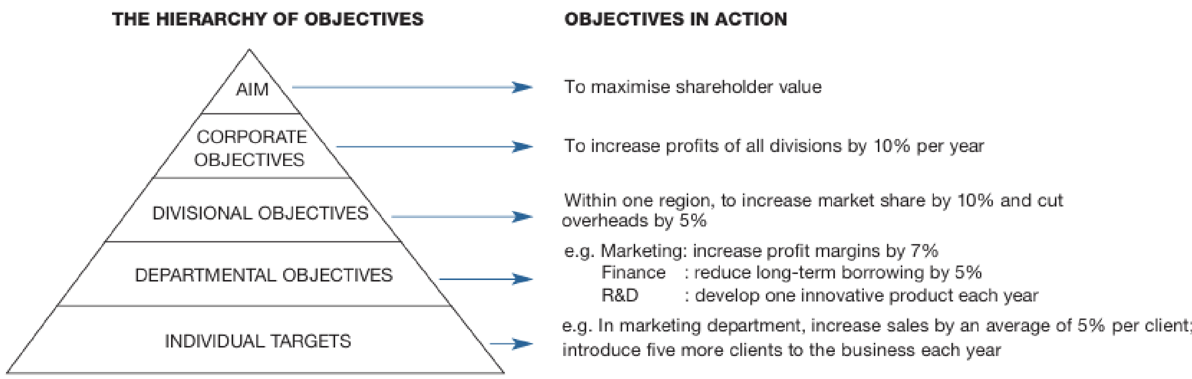

Figure 4.6 Management by objectives – how the corporate aim is divided at every level of the organisation

Oil refinery, Mexico

New babies in hospital, Brazil

The corporate culture of organisations may differ between private and public sectors

Communicating objectives

If employees are unaware of the business objectives then how can they contribute to achieving them?

f employees are communicated with – and involved in the setting of individual targets – then these benefi ts should result in:

■ Employees and managers achieving more – through greater understanding of both individual and company wide goals.

■ Employees seeing the overall plan – and understanding how their individual goals fit into the company's business objectives.

■ Creating shared employee responsibility – by interlinking their goals with others in the company.

■ Managers more easily staying in touch with employees' progress – regular monitoring of employees' work allows immediate reinforcement or training to keep performance and deadlines on track.

Ethical influences on business objectives and decisions

The growing acceptance of corporate social responsibility has led to businesses adopting an 'ethical code' to influence the way in which decisions are taken.

KEY TERM

Ethical code (code of conduct): a document detailing a company's rules and guidelines on staff behaviour that must be followed by all employees.

Evaluating ethical decisions

Adopting and keeping to a strict ethical code in decision making can be expensive in the short term:

■ Using ethical and Fairtrade suppliers can add to business's costs.

■ Not taking bribes to secure business contracts can mean failing to secure significant sales.

■ Limiting the advertising of toys and other child-related products to just adults to reduce 'pester power' may result in lost sales.

■ Accepting that it is wrong to fix prices with competitors might lead to lower prices and profits.

■ Paying fair wages – even in very low-wage economies – raises wage costs and may reduce a firm's competitiveness against businesses that exploit workers.

However, perhaps in the long term there could be substantial benefits from acting ethically:

■ Avoiding potentially expensive court cases can reduce costs of fines.
■ While bad publicity from being 'caught' acting unethically can lead to lost consumer loyalty and long-term reductions in sales, ethical policies can lead to good publicity and increased sales.
■ Ethical businesses attract ethical customers and as world pressure grows for corporate social responsibility, this group of consumers is increasing.
■ Ethical businesses are more likely to be awarded government contracts.
■ Well-qualified staff may be attracted to work for the companies with the most ethical and socially responsible policies

Revision questions

Q1.9707/12/O/N/2009/Q1 (b)
Briefly explain two objectives a small business might have other than profit maximization. [3]

Q2.9707/12/M/J/2015/Q1 (b)
Briefly explain two ways in which the objectives of a social enterprise might be similar of those of other types of business. [3]

Q3.9609/22/F/M/2018/Q19 (a)(ii)
Briefly explain the term business 'objectives' (line 5). [3]

Q4.9707/12/O/N/2011/Q4
(a) Define the term objective as used by a business. [2]
(b) Explain two objectives a small business might have in the first year of trading. [3]

Q5.9707/13/M/J/2012/Q4
(a) Define the term mission statement. [2]
(b)Briefly explain two benefits of setting corporate objectives. [3]

Q6.9707/11/M/J/2013/Q2
(a) State two aims of a mission statement. [2]
(b) Briefly explain how a mission statement effectives might be communicated to stakeholders of a business. [3]

Q7.9609/11/O/N/2016/Q1
(a) Define the term mission statement. [2]
(b) Briefly explain two limitations of mission statement. [3]

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Q8.9707/11/M/J/2010/Q3
Explain why it is important for a business to have clear objectives. [5]

Q9.9707/12/O/N/2010/Q3
Explain the importance of the profit maximization objective to a business. [5]

Q10.9707/12/M/J/2010/Q3
Explain how the ethics could influence the objectives and activities of a private sector business. [5]

Q11.9707/12/M/J/2011/Q3
Explain why the objectives of a business could change over time. [5]

Q12.9707/11/O/N/2014/Q3
Explain to the important of a mission statement to the employees of a public limited company. [5]

Q13.9707/12/O/N/2014/Q3
Explain why many businesses have corporate responsibility as an objective. [5]

Q14.9706/12/F/M/2017/Q3
Explain why a mission statement might be important for a multinational business. [5]

Q15.9609/12/O/N/201/Q3
Explain why a mission statement might be important for a multinational business. [5]

Q16.9609/13/O/N/2017/Q3
Explain the responsibility employees have to the business that employs them. [5]

Q17.9609/11/M/J/2017/Q3
Explain why corporate objectives are important to a business. [5]

Q18.9609/11/O/N/2017/Q3
Explain how a business might benefit from acting ethically. [5]

Q28.9609/12/O/N/2017/Q7
(a) Analyses the importance of corporate objectives and departmental objectives to the success of a business. [8]
(b) Discuss why a bank might change its corporate objectives over time. [12]

Q29.9609/11/M/J/2013/Q7 (b)
Discuss the view that only purpose of private sector businesses is to make profit, not to purpose corporate responsibility objectives. [12]

Q30.9707/11/O/N/2014/Q7 (b)
Discuss why some businesses do not set a growth objective. [12]

Q31.9707/13/O/N/2014/Q7 (b)
Discuss how ethics may influence the activates of a business. [12]

Q32.9609/13/O/N/2016/Q5 (b)
Discuss why senior managers leading large public limited companies might decide not to have corporate social responsibility (CSR) as business objectives. [12]

Q33.9609/11/O/N/2018/Q5 (b)
Discuss why the shareholders of a public limited company might disagree with having corporate social responsibility (CSR) as a business objective. [12]

Q34.9707/11/M/J/2010/Q6
Discuss how the activities of a business might be constrained by ethical issues. [20]

Q35.9707/12/M/J/2010/Q6
Discuss how the objectives of stakeholders groups in a profitable business might be in conflict. [20]

Q36.9707/11/O/N/2010/Q6
Discuss the benefits to a business of setting ethical objectives. [20]