

# IB Business Management SL

## 1.3 Business Objectives

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### 1.3.1 Aims, Objectives, Strategies & Tactics

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#### An Introduction to Business Aims & Objectives

- Aims and objectives serve as a guide for the businesses' overall strategy and direction, helping to **focus efforts and resources** toward a common purpose
  - **Business aims** are the long-term aspirations of an organisation
  - **Business objectives** are **specific, measurable, achievable, relevant, and time-bound targets (SMART targets)** that must be achieved to realise those aspirations
- Aims and objectives **align the efforts of all employees** towards a common vision and ensure that everyone is working towards the same goals
- They are critical for businesses to **function effectively** and **achieve long-term success**
  - E.g. A **business aim** may be to become the market leader in a particular industry
  - The corresponding **objectives** may include **increasing sales by 25%** over the next three years, improving customer satisfaction by 15%, and expanding into new geographic markets
- There is a hierarchy of objectives which cascade downwards

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#### *The Hierarchy of Objectives*

- A businesses **strategic objectives** are determined by its overall **aim**
- Strategic objectives then determine **tactical** and **operational** objectives which detail the **achievable goals** a business and its functions want to achieve over a **specified period** of

time

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### An Example of the Hierarchy for an Independent Coffee Shop Chain

Component	Explanation	Example
<b>Aim</b>	<ul style="list-style-type: none"> <li>What the business is looking to <b>achieve in the long term?</b></li> <li>Usually determined by senior executives</li> <li>Often the same as the overall <b>mission</b> or <b>vision</b> and describes the businesses <b>reason for being</b></li> </ul>	To be the most successful independent coffee shop chain in the country
<b>Strategic Objective</b>	<ul style="list-style-type: none"> <li>The <b>specific performance goals</b> set by senior management for the business to achieve over time</li> <li><b>Derived from the firm's overall aim</b> and mission statement</li> <li>Strategic objectives may focus on achieving specified levels of market share, profit, sales growth or new product/market development</li> </ul>	To have the highest market share of independent coffee shops in the country
<b>Tactical Objective</b>	<ul style="list-style-type: none"> <li>Objectives set by <b>middle managers</b> intended to direct the targets set by the functional areas they oversee</li> </ul>	To hire, train and retain sufficient members to ensure prompt, knowledgeable and engaging customer service in all coffee shops

<b>Operational Objective</b>	<ul style="list-style-type: none"><li>• The <b>day to day goals</b> or <b>targets</b> of functions or <b>departments</b> within the business, <b>derived from strategic</b> and <b>tactical</b> objectives</li><li>• Tactical objectives must be carefully <b>aligned across functions</b> so that all parts of the business are <b>working towards the shared goal</b></li></ul>	To reduce average queue times to less than 2 minutes per customer in all coffee shops
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## Vision Statement & Mission Statement

- A **mission statement** outlines the fundamental purpose and reason for an organisation's existence
  - It describes what the company does, who it serves, and how it provides value to its customers or stakeholders
- A **vision statement** articulates the **long-term aspirations** and future goals of the business

### A Comparison of Mission Statements and Vision Statements

Mission Statements	Vision Statements
<ul style="list-style-type: none"><li>• Explain the <b>present</b> overall purpose of the business<ul style="list-style-type: none"><li>◦ For example, it may refer to the way the business conducts its operations or how it <b>currently</b> meets the needs of customers and other stakeholders</li></ul></li><li>• Mission statements may need to <b>change over time</b> as market conditions develop</li><li>• <b>IKEA</b>'s current mission statement is 'To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.'</li></ul>	<ul style="list-style-type: none"><li>• Sets out what the business wants to achieve <b>in the future</b><ul style="list-style-type: none"><li>◦ These statements are likely to be expressed in <b>aspirational</b> terms and often include the emotional feeling that people should feel about their company</li></ul></li><li>• They are intended to <b>inspire</b> and <b>motivate</b> and allow stakeholders to understand <b>where the business is heading</b></li><li>• Vision statements <b>rarely change</b></li><li>• <b>Audi</b>'s long-term vision statement is 'To be the brand with the greatest appeal, fascinating customer-relevant innovations and breathtaking design.'</li></ul>

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### Exam Tip

Vision statements and mission statements are often dismissed as marketing tactics that say little about the real-world impact of a business.

Increasingly, though, brands are reporting on the progress they are making towards fulfilling their mission and acknowledging where changes in the external environment require adjustments to be made. A good example of this is provided by [Honest Tea](#) whose 2020 Mission Report explains the challenges the business faced during the pandemic and the necessary changes to its overall mission over the following years.

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## 1.3.2 Common Business Objectives

### An Introduction to Common Business Objectives

- The most effective objectives are **clearly stated** and allow **progress to be assessed**
- These types of objectives can be summarised using the acronym SMART

### SMART Objectives

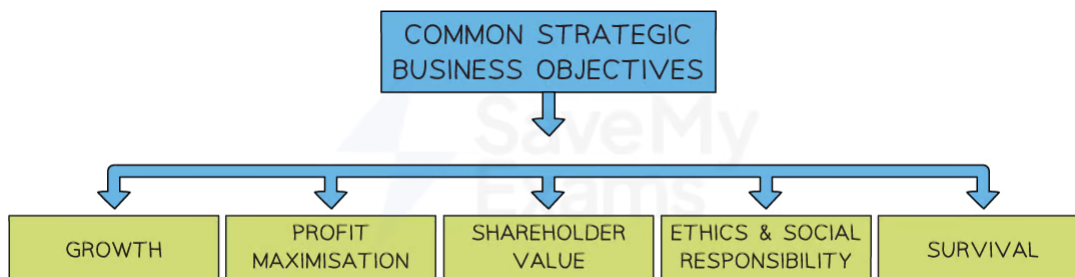
- Strategic, tactical and operational objectives should be
  - **Specific** - what exactly the business is measuring, such as the value of sales or sales volume
  - **Measurable** - a quantifiable success measure, such as a percentage increase
  - **Agreed** - the objective is shared with workers and perhaps mutually agreed
  - **Realistic** - whilst ambitious, it is capable of being achieved in normal circumstances
  - **Time-bound** - a date or time by which the objective should be achieved

INCREASE THE VOLUME OF ANNUAL SUBSCRIPTION  
RENEWALS BY 12% DURING Q3 2023

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#### *An example of a SMART tactical objective*

- Once objectives have been determined leaders develop **strategies** which **plan how they are to be achieved**
  - Strategies are **medium- to long-term** plans which should be **monitored** carefully and **reviewed** if necessary
- Effective strategies take into account the businesses **position in the market** as well as **external factors** that may affect their chances of success



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### An Explanation of the Common Strategic Objectives in the Private Sector

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Strategic Objective	Explanation
Profit Maximisation	<ul style="list-style-type: none"> <li>Most firms have the <b>rational</b> strategic objective of profit maximisation</li> <li>Profit = Total Revenue (TR) - Total Costs (TC)</li> <li>To maximise profits, firms can either <b>increase their sales revenue</b> or <b>decrease their costs</b> <ul style="list-style-type: none"> <li>Firms continuously analyse their costs to see if they can reduce them so that profit can be maximised</li> </ul> </li> </ul>
Growth	<ul style="list-style-type: none"> <li>Some firms have the strategic objective of <b>growth</b></li> <li>Firms with a growth objective often focus on increasing their sales revenue or market share</li> <li>Firms will also <b>maximise revenue</b> in order to increase output and benefit from economies of scale</li> <li>A growing firm is <b>less likely to fail</b></li> </ul>
Ethics & Social Responsibility	<ul style="list-style-type: none"> <li>An increasing number of firms are launching with <b>ethical</b> or <b>socially responsible objectives</b> <ul style="list-style-type: none"> <li>These typically include a focus on <b>climate action &amp; addressing poverty or inequality</b></li> </ul> </li> <li>They still <b>require profit to survive</b>, but will accept less than if they were <b>profit maximising</b> as long as they are meeting their social objective</li> </ul>
Survival	<ul style="list-style-type: none"> <li>Challenging market conditions or difficult periods of change or crisis can require a focus on <b>keeping the business going</b></li> <li>Survival is also a common <b>strategic objective for new business start-ups</b> and careful cash-flow management is likely to be at its core</li> <li>The recent <b>pandemic</b> required many businesses to adopt a short-term survival objective with many taking advantage of government support to enable them to continue trading and recover</li> </ul>



**Protecting shareholder value**

- A common objective for public limited companies where the **value of shares** and **dividends payable** to shareholders are important metrics
- Strategic objectives may seek to protect shareholder value above all else
- Having this objective will help to **encourage new investors** and satisfy existing shareholders

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## Changing Objectives in a Dynamic Environment

- Businesses operate in a **dynamic (constantly changing)** environment which may cause the business to pivot between different **objectives**
  - Business objectives are often influenced by various **internal and external factors**
- These changes are often necessary to ensure that the business **remains competitive, profitable, and compliant with regulations**

### Factors Which Cause Business Objectives to Evolve

Factor	Explanation	Example
Market conditions	<ul style="list-style-type: none"><li>• Market conditions such as competition, demand, and <b>changing consumer</b> price sensitivity can have a significant impact on a business's aims and objectives</li></ul>	<ul style="list-style-type: none"><li>• Uber and Lyft were initially focused on <b>capturing the largest share</b> of the ride-hailing market (market share)</li><li>• As competition intensified, both companies <b>shifted their focus to profitability</b>, and their objectives changed accordingly (profit maximisation)</li></ul>
Technology	<ul style="list-style-type: none"><li>• A business may shift its focus from traditional brick-and-mortar retail to online retail as <b>technology allows for a more cost-effective way</b> to reach customers</li></ul>	<ul style="list-style-type: none"><li>• Amazon began as an <b>online bookstore</b>, but as technology advanced, it expanded into a wide range of retail categories such as electronics, clothing and groceries</li><li>• Their objective changed from <b>increasing market share to market development</b></li></ul>

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Performance	<ul style="list-style-type: none"> <li>If a business is not meeting its <b>sales goals</b> in one area, it may change its objectives to try to <b>improve its financial performance</b></li> <li>In some cases this may involve <b>retrenchment</b> (moving out of existing markets)</li> </ul>	<ul style="list-style-type: none"> <li>In 2018 Ford announced that it was shifting its <b>focus away from producing passenger cars</b> and focusing more on SUVs and trucks</li> <li>The move was driven by the company's poor financial performance and the new objectives were aimed at <b>improving sales and profitability</b></li> </ul>
Legislation	<ul style="list-style-type: none"> <li>A company may need to shift its focus to comply with new regulations or <b>capitalise on new opportunities</b> created by <b>changes in legislation</b></li> </ul>	<ul style="list-style-type: none"> <li>With the passage of the Affordable Care Act in the USA in 2014, <b>healthcare providers</b> had to adjust their aims and objectives to comply with new regulations and take advantage of new opportunities created by the law</li> </ul>
Ethics & Social Change	<ul style="list-style-type: none"> <li>Over time attitudes towards <b>social issues</b> and what is considered to be <b>right and wrong</b> develop and may force a business to change its objectives</li> </ul>	<ul style="list-style-type: none"> <li>It is almost unbelievable that until the 1950s tobacco companies marketing objectives included <b>promoting health-giving effects of smoking</b> and increasing sales to young people</li> <li>By 2023 British American Tobacco (BAT) had changed its sales objective 'To have 50 million consumers of our non-combustible products by 2030'</li> </ul>
Internal reasons	<ul style="list-style-type: none"> <li>Factors such as changes in <b>management</b> or the company culture can also influence a business's aims and objectives</li> <li><b>Innovation</b> or advances in processes might mean that more ambitious objectives may be set</li> </ul>	<ul style="list-style-type: none"> <li>In 2014 Microsoft appointed Satya Nadella as the company's CEO <ul style="list-style-type: none"> <li>He shifted the company's <b>focus from software to cloud services</b> and the company's objectives changed accordingly</li> </ul> </li> </ul>

### 1.3.3 Corporate Social Responsibility (CSR)

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#### An Introduction to Corporate Social Responsibility

- **Corporate Social Responsibility (CSR)** refers to the concept that businesses have a responsibility to consider and positively impact society **beyond their economic interests**
- It is a framework through which companies **voluntarily integrate social and environmental concerns** into their business operations and interactions with stakeholders



**Corporate social responsibility goals can be focussed on a range of different stakeholders**

- CSR involves taking into account the **impact of business activities on various stakeholders**, including employees, customers, communities, the environment, and society at large
- CSR **goes beyond legal compliance** and strives for companies to actively contribute to sustainable development and societal well-being

#### Examples of Socially Responsible Activities

Socially Responsible Activity	Example
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<b>Sustainable sourcing of raw materials and components</b>	<ul style="list-style-type: none"><li>• High street retailer <i>H&amp;M</i> has a goal of using only recycled or sustainably sourced materials by 2030</li><li>• It also publishes <b>a list of the majority of their supplier's information</b> which is updated regularly, allowing stakeholders to verify and hold the company responsible for their suppliers' conduct</li></ul>
<b>Responsible marketing</b>	<ul style="list-style-type: none"><li>• <i>Marks and Spencer</i> ensures that it never actively directs any marketing <b>communications to children under the age of 12</b> and does not directly advertise any products high in fat, sugar or salt to children under the age of eighteen</li></ul>
<b>Protecting the environment</b>	<ul style="list-style-type: none"><li>• Cafe chain <i>Prêt à Manger</i> offers discounts to customers who <b>bring their own coffee cup</b>, reducing the number of single-use plastic containers it dispenses</li></ul>
<b>Responsible customer service</b>	<ul style="list-style-type: none"><li>• <i>John Lewis</i>'s famous 'Never Knowingly Undersold' slogan refers to the company's commitment to <b>checking competitor prices regularly</b> to ensure that the price its customers pay is the lowest available in the local area at that time</li></ul>

## Ethics and CSR

- Ethics relates to the **rights or wrongs** of making a strategic decision that are **beyond legal requirements** and in accordance with a businesses **corporate social responsibility principles**
- Some ethical businesses adopt an **ethical code of practice** which informs decision-making and may set out how they:
  - Behave responsibly with regards to the **environment** (for example, using recycled materials in packaging)
  - Avoid negative impacts on **animals** (e.g animal testing)
  - Adopt **fair working practices** (e.g. paying a real living wage)
  - Implement robust and **equitable supply chains** (e.g. using sustainably-sourced raw materials in production)
  - Takes steps to **eliminate corruption** (e.g. ensuring appropriate tax is paid in the countries in which the business operates)
  - **Avoids controversial products** or take steps to minimise their impact or access to them (e.g. having strict verification procedures in place prior to cosmetic surgery procedures being carried out)
  - **Ceases trading** with questionable suppliers or customers (e.g. cancelling a supply contract with a supplier that uses child labour)
- It is now common practice for large companies to publish annual **Corporate Responsibility Reports** which provide an audit of the steps being taken to meet their commitments to a range of stakeholders alongside annual financial reports
- **Extra costs** are involved in operating in a socially responsible way and these costs are usually passed on to consumers

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## Reasons for Implementing CSR

- Business set ethical or socially responsible objectives for a range of sound **commercial** reasons

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### Business Reasons for Implementing CSR

Reason	Explanation
Improved Reputation	<ul style="list-style-type: none"><li>• CSR can <b>enhance</b> the business image and reputation and improve its attraction to many <b>stakeholders</b><ul style="list-style-type: none"><li>◦ Operating in a socially responsible way is likely to be attractive to both existing and potential <b>customers</b></li><li>◦ It should lead to positive <b>media</b> coverage</li><li>◦ The business may be able to retain and attract quality <b>workers</b> to fill job roles</li><li>◦ It may be looked upon favourably by <b>investors</b>, especially those that prefer ethical investment</li></ul></li></ul>
Added Value	<ul style="list-style-type: none"><li>• CSR can be very profitable as it <b>adds value</b><ul style="list-style-type: none"><li>◦ In competitive markets CSR can provide a differentiating <b>USP</b> that may mean the business can use <b>premium pricing</b></li><li>◦ E.g. Tony's Chocolate's, whose mission is to be commercially successful whilst being committed to using cocoa only from slavery-free sources, <b>is able to charge around 200% more</b> for its products than its mass market rivals</li></ul></li></ul>
Employee Morale & Motivation	<ul style="list-style-type: none"><li>• CSR may improve employee <b>motivation</b> and <b>productivity</b><ul style="list-style-type: none"><li>◦ Workers are more likely to feel <b>connected</b> to a business that 'does the right thing' and may be more inclined to work hard to ensure that the business is a success</li><li>◦ Employees are also <b>less likely to leave</b> the business or take time off work</li></ul></li></ul>

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**Solve Social Problems**

- CSR may help to solve **social problems** e.g. resource depletion
  - Businesses that adopt CSR objectives are likely to understand that they can play a key role in **solving some of the emerging social, ethical and environmental problems** faced by communities around the world
  - E.g. businesses that look to minimise the use of fossil fuels in production processes will be making a small contribution to global efforts to combat climate change



## The Impact of Implementing CSR

- Businesses that choose to adopt ethical principles usually attract long-term **loyalty from employees and customers** and may find that their approach provides a useful **competitive advantage**
- They are also likely to receive the support of the **local community** and **local government** especially if they share their aims
- **Suppliers** and **competitors** of ethical businesses often change their approach to ensure that they do not lose sales to more ethical rivals
- Taking an ethical approach costs more and **may reduce the overall level of profits** if the business is not able to raise their prices to compensate
  - Japanese fashion retailer Uniqlo has tried to move towards an eco-friendly strategy in recent years, focusing on technologies that make the production of new clothing from recycled materials possible
    - The business has invested significant sums in energy-efficient production facilities and now supports the campaign to safeguard the islands and coastal regions of Japan's threatened Seto Inland Sea



### Exam Tip

Some large businesses have been accused of **greenwashing**, where significant efforts are made to create the impression that it is environmentally friendly when, in fact, it is not.

Greenwashing may involve

- Making broad sustainability claims without evidence.
- Overstating positive environmental effects in marketing materials.
- Advertising products as eco-friendly whilst but sourcing raw materials from unsustainable suppliers
- In 2015, Volkswagen admitted to cheating emission tests by making its diesel cars appear far less polluting than they really were whilst promoting them as environmentally friendly in its marketing campaigns
  - This led to Volkswagen facing several lawsuits and fines totalling billions of dollars and long-term damage to its previously excellent reputation for quality and dependability

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