BUSINESS OBJECTIVES (1.4)

Business objectives are the aims and targets that a business works towards to help it run successfully. Although the setting of these objectives does not always guarantee business success, it has its benefits :

- Setting objectives **increases motivation** as employees and managers now have clear targets to work towards
- **Decision making will be easier** and less time consuming as there are set targets to base decisions on. i.e., decisions will be taken in order to achieve business objectives
- Setting objectives **reduces conflicts** and helps unite the business towards reaching the same goal
- Managers can **compare** the business' performance to its objectives and make any changes in its activities if required.
- Investors will be more keen to invest if they have a clear future **strategy**

A **business strategy** is a long term plan that shows a company's future objectives and goals

<u>The most effective business objectives usually meet the following '**SMART**' criteria :</u>

Specific - should be specific to what the business does and what applies to the business
Measurable - should be measurable to allow for comparisons with actual results
Achievable - should be achievable because if objectives are too high it'll demotivate workers
Realistic - should be realistic and relevant with the resources and abilities of the company
Time specific - Without a time limit, it will be impossible to assess whether the objective has actually been met

Common business objectives :

Corporate objectives are specific goals set for the business to achieve. Objectives vary with different businesses due to size, sector and many other factors. However, many businesses in the private sector aim to achieve the following objectives :

- **Profit maximisation** - making as much profit as the business is capable of. Common primary objective of private sector businesses, as profits are used for further investment into the business and payment of return to the shareholders/owners

- **Profit satisficing -** means aiming to achieve enough profit to keep the owners happy, rather than trying to get as much profit as possible, common aim for small businesses who wish to live comfortably but do not want to work longer and harder
- **Growth -** Once a business has passed its survival stage it will aim for growth and expansion. Growth can bring many benefits but also can be too rapid and cause issues
- **Increasing market share -** Market share is the proportion of total market sales achieved by one business. Increasing market share will better customer loyalty, improving brand image, and retailers will want to stock and promote the best-selling brand
- **Survival -** Is a common main objective among new or struggling businesses. To achieve this, firms could decide to lower prices, which would mean forsaking other objectives such as profit maximisation. Once business is established, they can focus on profit
- **Maximising returns to shareholders -** Is a common objective amongst public limited companies where focus is put on increasing company share price and dividends paid to shareholders. These targets can be reached by maximising profit
- **Corporate social responsibility -** Social responsibility is when a business decision benefits stakeholders rather than shareholders. (like choosing not to undertake a project that will harm the environment even though it will generate a lot of profit.) This can help prevent negative publicity for a business

Divisional, departmental and individual objectives

Once corporate objectives have been established they need to be broken down into specific targets for separate divisions, departments and, ultimately, individuals.

Once the divisional objectives have been established, then these can be further divided into departmental objectives and budgets and targets for individual workers. This process is called management by objectives (MBO)

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

Mission statements

A mission statement is a statement of the business's core aims, phrased in a way to motivate employees and to stimulate interest by outside groups. They are an attempt to condense the central purpose of a business's existence into one statement.
They are not meant to be detailed working objectives, but they help to establish in the eyes of other groups 'what the business is about'.

Advantages of mission statements :
✔ Informs stakeholders and other groups what the central aim and vision the business is
✔ Provides a sense of purpose and direction to managers and workers

Disadvantages of mission statements :
✖ Can be too vague and general, so may not be enough to satisfy shareholders
✖ It may need to be changed frequently if the nature of the business changes

Mission	A statement declaring what business the organisation is in, and what it is intending to achieve
Objectives	The goals against which the organisation's achievements can be measured
Strategy	The medium to long-term methods for achieving organisational objectives
Tactics	The short term activities with which the strategy is implemented

How objectives might change over time

- A newly formed business may have overcome the 'survival' objective by operating for several years, and now the owners wish to pursue objectives of growth or increased profit.
- **The economic environment may change** as the start of an economic recession may lead a firm to switch from growth to survival as its main aim
- The market may become **more competitive** and an objective of growth may change to survival

Factors that influence a business's objectives

- **Business size** : a small business will usually either have survival or profit satisficing, while a large business probably will have growth and profit maximisation as a main goal
- **Age of business** : Newly formed businesses are likely to aim to survive at all costs – seeing as the failure rate of new firms in the first year of operation is very high. Later, once well established, the business may pursue other objectives, such as growth and profit

- **The legal form of business** : sole traders and partnerships may not have the aim for growth, preferring to remain small and flexible. While limited companies such as private/public will be run by shareholders who will want to generate profit for their own returns
- **Corporate culture** : Culture is a way of doing things that is shared by all those in the organisation
- **Public/private sector business** : a private sector business will have the focus of benefitting itself through profit and growth, while a public sector business that is government run will have providing a service to society as their main objective

The different stages of business decision making

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 - did you achieve your goal?

Why communicating objectives is important to a workforce

If employees are unaware of the business objectives then how can they contribute to achieving them? Communication of corporate objectives – and translating these into individual targets – is essential for a businesses success.

The benefits of communicating business targets and objectives to employees are :

✔ **Employees and managers achieving more** – through greater understanding of both individual and company wide goals

✔ **Motivating the employees** - will feel included and motivated to work towards the goal

✔ **Managers more easily staying in touch with employees' progress** – regular monitoring of employees' work allows them to keep performance and deadlines on track

✔ **Employees seeing the overall plan** – and understanding how their individual goals fit into the company's business objectives and able to work accordingly

How ethics may influence business objectives and activities

The growing importance of **corporate social responsibility** and consumers holding companies accountable for business malpractices has led to businesses adopting an '**ethical code**' that is used as a guide to all employees on what behaviour is and isn't appropriate.

Ethical code is a document detailing the rules and guidelines on staff behaviour that must be followed by all employees of an organisation

Ethics are moral guidelines that influence business decision making

Should business decisions be influenced by just profit calculations - or should moral issues be considered too? Adopting and keeping to a strict ethical code in decision making can be expensive in the short term. However, perhaps in the long term there could be big benefits from acting ethically.

Advantages of being ethical :

- Helps build an ethical brand image that will **attract customers** who are ethically minded
- Ethical businesses are **more likely to be awarded government contracts**
- May be able to justify **charging higher costs** by marketing themselves as environmentally friendly/ethical
- **Avoids breaking laws** and the consequences of this (fines, being shut down etc.)
- **Avoid negative publicity** so consumers won't boycott products/services

Disadvantages of being ethical :

- May **add to business costs**, such as having to pay workers above the minimum wage
- **Not taking bribes** can mean failing to secure important deals
- May **make the business uncompetitive** if other firms in the same industry are acting unethically and charging lower costs
- Sourcing materials and creating products ethically can be **expensive** and may result in having to charge a higher price in order to make a profit
- **Loss in customers** - most customers are more concerned with low prices rather than caring about how products are made or how workers are treated

There is a difference between a business being unethical and being unlawful. A business can make unethical decisions that have negative repercussions, but that doesn't always mean they are breaking the law. It all depends on what country they are operating in and what said countries' laws are.

For example, one country may have laws in place that prevent children below the age of 15 to work, or have strict laws surrounding how much corporations are allowed to pollute. Due to the differing laws in each country, a business that is solely profit focused may set up operations in a country (usually an underdeveloped one) with minimal laws surrounding pollution and child labour in order to cut costs.

Examples of what can be seen unethical business practices are :

- Advertising products directly to children
- Accepting/paying bribes to benefit the business
- Polluting the environment within legal bounds
- Paying workers as little as they are legally required
- Employing child labour if its acceptable in that country
- Closing a factory resulting in a mass loss of jobs to save costs

Pressure groups

Pressure groups are organisations/groups of people who change business (and government) decisions.

If a business is seen to behave in a socially irresponsible way, they can conduct consumer boycotts (encourage consumers to stop buying their products) and take other actions. They are often very powerful because they have public support and media coverage and are well-financed and equipped by the public. If a pressure group is powerful it can result in a bad reputation for the business that can affect it in future endeavours, so the business will give in to the pressure groups' demands, forcing them to be ethical.

Example : Greenpeace