

## **2. Introduction To Business Management II: The Objectives of Business**

### *Objective*

At the end of this chapter, the students should be able to list and explain the **objectives** of business, business and its environment and social responsibilities.

### **2.1 What are Objectives?**

Objectives refer to the goals which an organization intends to accomplish or sets out to achieve within a specific time limit and with given resources. They are otherwise known as the target to which subsequent activities, energy and resources are directed. Once an organization sets its objectives, it goes on to commit all the available resources – men, money and material (known as the three ‘Ms’) – towards the eventual realization of such objectives.

The function of setting objectives in a business is that of the Board of Directors, representing the shareholders. Such a board, very often, receives expert advice from the top managers and consultants in formulating business goals or objectives.

Usually, a typical business organization has a number of objectives that it tries to meet simultaneously. Some of such objectives are discussed below:

#### **2.1.1 Profitability Objective**

This is the objective of business to make profit. Profitability objective is so common among businesses that an erroneous impression has been formed that business enterprises exist mainly to make profit. The rationale behind this motive is that a business must make profit in order to attract enough capital for investment purposes and also to be able to pay a reasonable return on such capital in form of dividends. Profitability has become so central to business that in some groups of identical companies, it has become the practice to state the expected profit as a percentage of capital investment.

It is also a convention to adopt profit value as a standard measure of efficiency.

#### **2.1.2 Service Objective**

Most enterprises are service-oriented, e.g. government utility services and industries. Even where the profit motive is paramount, unless customers derive satisfaction from the services of the industries there may be no profits made. This is often re-echoed in ‘Commerce’ and ‘Economics’ when we say ‘the consumer is king’ or the ‘customer is always right’. That is, profitability objective and service objective may not necessarily be contradictory but complementary. This explains why in modern thinking, governments attempt to achieve both objectives by government-owned industries.

#### **2.1.3 Survival and Growth Objective**

By this, a company must not just exist, it must also grow and expand. A company must not just be sub-marginal in merely breaking even; it must be ultra-marginal, operating above break-even level. It must review its production, distribution and other operations and techniques very often with a view to self-improvement. New markets, new products, new uses for old products and more economic production methods must be sought after all the time.

#### **2.1.4 Government and Societal Objectives**

Like a human being, a company lives within the society, and has a legal entity, though artificial. Therefore, a company, like a good citizen, must not only set but must also realize certain societal and government objectives. Some examples of these are payment of taxes, observation of all business laws, like safety regulations, workers' pension and workmen compensation, minimum wage, etc. As industrialization and production technology becomes pronounced, a company's social objectives may include efforts in combating the effects of industrial pollution both within the industry and in the immediate environs.

#### **2.1.5 Market Penetration Objective and Leadership Objective**

These are complementary to the growth objective. A company usually specifies the rate of market conquest it desires to achieve either in quantitative terms or as a percentage increase in the size of the total market. If a company is already in a dominant position in the market, it could further aspire to the leadership of its own industrial sector, thereby pursuing a **leadership objective**. This may mean that the company will commit a sizeable portion of its resources to a leadership role in form of research projects, leading to innovations, discoveries, inventions, etc. all of which in return lead to self-expansion with external advantages in the form of benefits to the smaller companies.

Market penetration objective is so crucial to many enterprises that it is perceived to be an integral part of their long-term plan.

#### **2.1.6 Productivity Objective**

This is a measure of the ability of an enterprise to achieve production output far greater than the input. The essence of this objective is that the unit cost of production falls with an increase in production units. It is an objective that is central and complementary to other objectives discussed so far. It is primarily an efficiency objective. It requires all the given factors of production achieving greater output at the various stages of production. It may involve offering incentives to employees with a view to getting greater results.

#### **2.1.7 Objectives of Satisfying Shareholders and Employees' Unions**

Some companies do state and pursue the objective of satisfying a number of groups in their organization: examples of such groups are the employees' or trade unions and the shareholders. Since one of the most essential assets of an organization is the human resources (employees), companies do find ways and means of providing very high incentives for workers, e.g. by allotting some shares to employees, thereby making them shareholders and receivers of part of company's dividends. Another incentive is to allocate some parts of the company's declared net profit to workers. The aim is to assure a well-motivated labour force.

Similarly, in order to provide for a group of contented shareholders, some companies set aside a fraction of their net profit for distribution as dividends to ordinary shareholders as conditions allow. By so doing, companies are able to meet the ordinary shareholders' appetite for some returns on their investment.

### 2.1.8 Social/National Objective

Some companies also pursue social and national objectives. For instance, they employ part of their funds to promote social and national activities like sports – many of the leading football clubs in Nigeria are founded and funded by business organizations. In addition, some business organizations promote sportsmen who represent this country in athletics, boxing and wrestling both national and at international levels.

In conclusion, it will be observed that an organization may have multiplicity of objectives. While such objectives in the short-run might be conflicting, e.g. the need to engage large funds in research (i.e. leadership objective) and the need to make quick profit (i.e. profitability objective), it is pertinent to remark that in the long run such objectives are complementary. For instance, engagement in, functional and fruitful research and product development might lead to increased profitability, satisfying employees' demand for higher pay and earmarking higher dividends for the shareholders.

Similarly, any of such objectives can be married together and be found complementary to one another in the long run.

## 2.2 Business Environment

Business environment consists of the physical and social conditions in which the business is situated, especially as they influence its operation and development. Business environment can be friendly or hostile, favourable or unfavourable. A business environment is regarded as an uncontrollable variable especially in the short term.

The environmental factors which affect business operations can be classified as follows:

- (a) *Social environment*: The culture, custom or religion of a people can affect the business operation or practice. Social factors can determine the type of goods and services produced in an organisation and the type of people who produce them or offer themselves for employment. Social infrastructures such as good roads, water and electricity, where available, enhance business transactions, while a lack of them hampers business operations and development. Social changes can force businesses to change their strategies to be able to respond to the needs of the society successfully. Examples of social changes include advancement in technology and the provision of social welfare services, thereby creating new needs, desires and demands.
- (b) *Legal environment*: A country's legal system with the appropriate laws and legislation relating to trade practice, taxes, contracts, employment, business registration, etc. ensure speedy settlement of disputes. A less cumbersome legal system stimulates business operations and even attracts external investors as the legal requirements are simple, easy to understand and comply with or obey.

- (c) *Economic environment*: Business decisions are nowadays being taken in complex economic systems (capitalism, socialism and communism). For instance, a free enterprise economy (capitalism) encourages business activities and stimulates investment, while a controlled or restricted economy (socialism/communism) stifles business initiative enterprise and investment. Other economic factors which affect business include consumer behaviour, as occasioned by inflation, depression, recession or boom.
- (d) *Political environment*: This has to do with the stability of the government, whether military or civilian, single party or multiparty. Any political environment that is not stable scares away investors, both foreign and local. Political instability can arise from military take-over of a government, civil unrest and religious disturbances. Frequent and contradictory changes in government policies which do not allow businesses to fashion long term plans and strategies are not healthy for investment.
- (e) *Technological environment*: This has to do with the level of technological development in the society where the business operates. The existence of appropriate technology and skills helps efficient production and management practices. Other technological factors include the level of mechanization and automation in the agricultural and industrial sectors the level of development in transport and communication, and the prompt control or eradication of disease outbreaks.
- (f) *Physical environment*: Changes in physical conditions can affect business operation or undertaking. For instance, drought and desert encroachment can affect agricultural undertaking a great deal. In the same way, oil spillage can make it impossible for polluted streams, lakes, rivers and seas to support animal or plant life. Depletion of forests, lands and mineral resources can have adverse effects on business organizations, and this calls for sound environmental policies on aforestation and conservation.

### **2.3 Social Responsibilities of Business**

Social responsibilities of a business are the self-imposed duties or roles which a business firm performs in a community where it operates and for the benefit of the society as a whole. Such roles are not usually profit-motivated but aimed at assisting the society. They help to improve the image of the firm and its relationship with the community or society where it is situated.

These social responsibilities or duties can be grouped into:

- (i) *Responsibilities to Customers*:
  - (a) Ensuring that customers are provided with safe-to-use and high quality products and services.
  - (b) Adopting advertising and marketing methods that will not mislead the customers.
  - (c) Developing products that customers really need and want.
  - (d) Proper labeling of products.
  - (e) Providing satisfactory after-sales services by dealing with complaints promptly.
- (ii) *Responsibilities to the Local Community*:

- (a) Creating and maintaining cordial relationships with the local community by respecting the customs, religions and culture of the people.
- (b) Contributing to the well-being of the local people, providing social services and amenities, sponsoring educational programmes on radio and television.
- (c) Providing philanthropic services in the form of scholarship for the needy students of the community.
- (d) Providing social amenities, e.g. boreholes, culverts, access roads, refuse disposal and recreational facilities.
- (e) Considering the interest and culture of the community in the formulation of certain policies that relate to transportation, working hours, transfer of workers, etc.
- (f) Compensating the community for lands and crops acquired for expansion or for siting new factories and offices.

(iii) *Legal Responsibilities:*

- (a) Observing to the letter the law in all aspects of the firm's business.
- (b) Having consideration for other corporate bodies, societies and individuals.
- (c) Complying with government regulations on business, e.g. import and export and foreign exchange laws, voluntarily instead of subverting or evading them.

(iv) *Environmental Responsibilities:*

- (a) Management or control of pollution, that is, taking conscious steps to avoid land, air and noise pollutions, and knowing their implications on the life of the people or community.
- (b) Giving attention to the health hazards arising from production processes, e.g. noise, fumes, effluent (liquid wastes, sewage, chemicals) and solid wastes, and minimizing the incidences of each.
- (c) Promoting the conservation of materials and resources (animals and rare plants). Finding possible uses for substitutes and recycling of by-products. Above all, avoiding wasteful use of resources.

## **Summary**

- \* Businesses exist not only for profitability. Other equally important objectives of businesses are:
  - (i) provision of social services;
  - (ii) survival and growth;
  - (iii) adhering to government and legal regulations and directives;
  - (iv) pursuing leadership and market penetration objective;
  - (v) promotion of national and societal objectives.
- \* The place where a business operates is its environment and this affects its operation in one way or the other by the environmental variables such as the laws, economy, polity, etc.

- \* A business organization has some responsibilities to the society in which it operates. Such responsibilities include legal responsibilities, responsibilities to the local community and environmental responsibilities.

## **Revision Questions**

### ***Essay Questions***

1. State the ways and means by which a business organization can serve both the objectives of government and those of the society in which it operates.
2. What constitutes business environment?
3. Enumerate and explain the social responsibilities of a business
4. Compare and contrast Market Penetration Objective and Productivity Objective
5. Write short notes on
  - (i) Service objective
  - (ii) Survival objective

### ***Objective Questions***

1. One of the following is NOT an objective of Business
  - A. sharing profit objective
  - B. profitability objective
  - C. service objective
  - D. survival objective

*(JAMB 1999)*

2. The main thrust of government policy of evolving good business environment in Nigeria is the need
  - A. to attract local and foreign investors
  - B. for more export commodities products
  - C. for consumer oriented
  - D. to have viable local market

*(JAMB 1999)*

3. Which of these sets of external environmental factors affect a business operation?
  - A. Competition, industry and product
  - B. Competition, labour and political
  - C. Political, cultural and labour
  - D. Economic, social and legal

*(JAMB 1999)*

4. Awarding scholarship and sponsoring sports by a business organization are examples of
  - A. marketing strategy
  - B. economic responsibility
  - C. social responsibility
  - D. advertising strategy

(JAMB 2002)

5. Leadership objective is an alternative for
  - A. employee objective
  - B. social objective
  - C. penetration objective
  - D. productivity objective

(JAMB 2003)

6. Social objective is the same as
  - A. production
  - B. national objective
  - C. sports objective
  - D. social services objective

(JAMB 2003)

7. Social responsibility is the ability of an organization to
  - A. meet the needs of its community
  - B. operate without disrupting the very essence of the environment
  - C. tackle the socio-economic problem of its community
  - D. contribute to sustaining and developing its community

(JAMB 2003)

8. The government's policy thrust on the business environment is to
  - A. increase production
  - B. promote exports
  - C. attract investors
  - D. be self-sufficient

(JAMB 2003)

9. The market structure, business conditions and financial systems in Nigeria constitute the.
  - A. political environment
  - B. economic environment
  - C. technological environment
  - D. Cultural environment

(JAMB 2003)

## **Project**

Mention, and write short comments on, five companies in your area which have achieved objectives other than profitability.