

# HL IB Business Management



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## 1.3 Business Objectives

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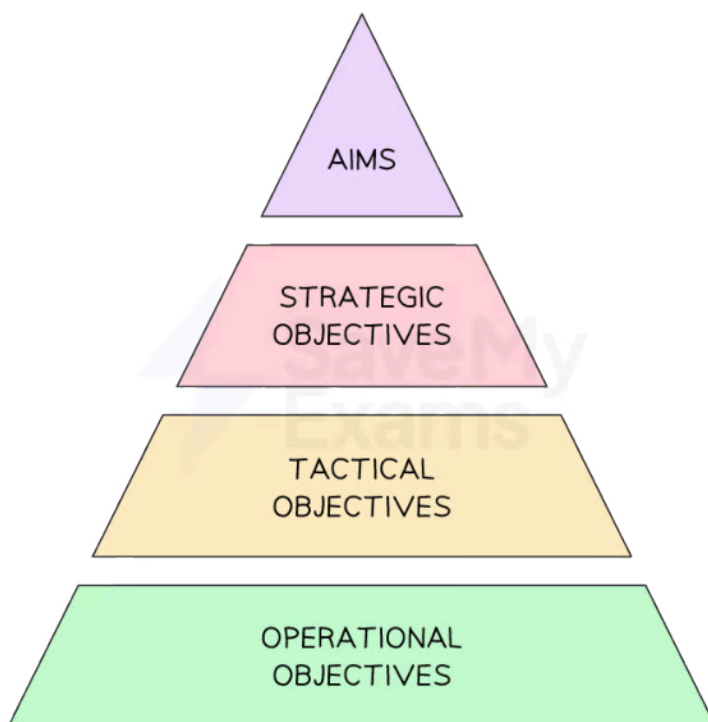


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## Aims, Objectives, Strategies & Tactics

### 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 business 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



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<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's</b> 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's</b> long-term vision statement is 'To be the brand with the greatest appeal, fascinating customer-relevant innovations and breathtaking design.'</li> </ul>

### Examiner Tip

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

Increasingly 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. For some businesses this becomes a point of competitive advantage



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## 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

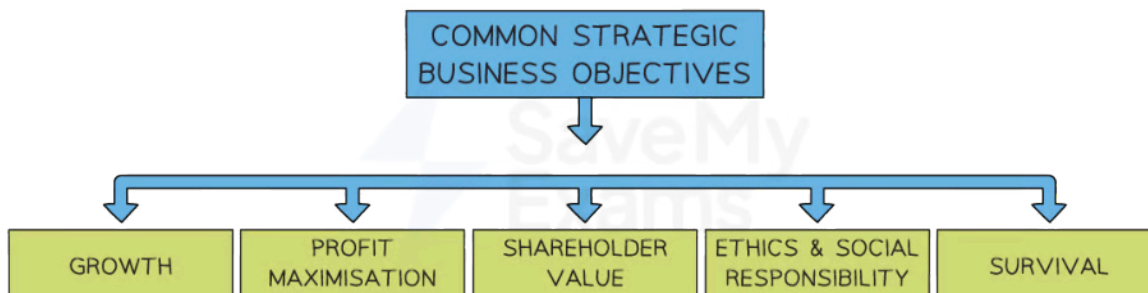
INCREASE THE VOLUME OF ANNUAL SUBSCRIPTION  
RENEWALS BY 12% DURING Q3 2023

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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

#### Diagram Which Lists Common Business Objectives



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*Business objectives may change over time. E.g. the initial objective may be growth but an established business may choose to focus on ethics*



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

Strategic Objective	Explanation
<p><b>Profit Maximisation</b></p>	<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>
<p><b>Growth</b></p>	<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>
<p><b>Ethics &amp; Social Responsibility</b></p>	<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</b> or <b>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>
<p><b>Survival</b></p>	<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>
<p><b>Protecting Shareholder Value</b></p>	<ul style="list-style-type: none"> <li>A common objective for public limited companies where the <b>value of shares</b> and <b>dividends payable</b> to shareholders are important metrics</li> </ul>

- 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>
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 an <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>



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<p><b>Legislation</b></p>	<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>
<p><b>Ethics &amp; Social Change</b></p>	<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>
<p><b>Internal reasons</b></p>	<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>



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## Corporate Social Responsibility (CSR)

### 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

### 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>
Solve social problems	<ul style="list-style-type: none"> <li>CSR may help to solve <b>social problems</b> e.g. resource depletion <ul style="list-style-type: none"> <li>Businesses that adopt CSR objectives are likely to understand that they can play a key role in <b>solving some of the emerging social, ethical and environmental problems</b> faced by communities around the world</li> </ul> </li> </ul>

- 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



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## 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

### Examiner 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