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| ***Business objectives – Corporate objectives; Ethical influences*** |

**Topics covered**

* **The different corporate objectives and their ethical influences**
* **p.60-68**

***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.

* Turn into **goals** or **targets** specific to each business
* Then can be turned into strategic **departmental targets** (HR, Marketing, Sales, and Production etc.)
* Should give a **clearer** **guide** for management action or strategy

**Common corporate objectives:**

1. ***Profit maximisation***

**Profits** are a reward and **incentive** for taking \_\_\_\_\_\_. Profits are essential for **rewarding investors** in a business and for financing further growth. Business owners or entrepreneurs are persuaded and incentivised by profits to take risks.

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| **Profit maximisation** – Producing at that level of **output** where the greatest *positive difference* between **total revenue** and **total costs** is achieved. |

* It seems to **rational** to seek maximum profit available
* It’s a **missed opportunity** if profits aren’t **max\_\_\_\_\_\_\_\_\_\_\_\_d**

However, **limitations** with this corporate objective (profit maximisation) **are**:

* Focus on high **\_\_\_\_\_\_\_\_-term** profits may encourage competitors
* Many businesses seek to **maximise** sales – therefore **market share** – with a target rate of **profit**
* Smaller business owners may **seek** more leisure time or keep control rather than maximise profit

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* Profit maximisation may **CLASH** with other stakeholder groups: employees, environmental concerns, local residents etc. A clear conflict of **priorities.**

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| How? |

1. ***Profit satisficing***

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1. ***Growth***

The growth of a business usually measured in terms of sales or value of output – has many potential benefits for the manager and owners.

* *Less likely to be taken over; economies of scale*
* *Manager motivation*
* *Keep competitive*

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| Potential **limitations** for objectives based on growth:   * Too rapid – **cash flow problems** * Sales growth at the expense of **lower profit** **margins** * Larger businesses can leads to **diseconomies of scale** * Profits to finance growth – **lower short-term return** to **shareholders** * **Loss** of direction and focus if growth is different from core business |

1. ***Increasing market share***

Closely linked to overall growth is the market share it enjoys within its market. Although this is not always so (a market growing faster than the business for example); increasing market share should mean that the market mix of the business is more successful than the competitors. Benefits from being a brand leader could be:

* *Retailers*
* *Profit margins*
* *Confidence for consumer*

1. ***Survival***

Can be the aim for many new **small** businesses, and struggling **large** businesses that may have got into financial difficulties. Unless it survives, it cannot generate benefits for stakeholders, such as **profits** for owners or **jobs** for employees.

What **advice** could you give a business to survive?

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1. **Corporate Social Responsibility (CSR)**

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| CSR is  Examples are: |

We will cover this is more detail in the next chapter ‘Stakeholders’

1. ***Maximising short-term sales revenue***

This could benefit managers and staff when **s\_\_\_\_\_\_\_\_\_\_s** and **bo\_\_\_\_\_\_s** are dependent on sales revenue levels. However, if **higher sales are achieved** by lowering prices, actual profits may fall.

1. ***Maximising shareholder value***

It was a trend in the 80s and 90s for large companies’ aim to be maximising **SHAREHOLDER VALUE**

* Shareholders make a **return** from their **shares** partly through:

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| The **dividend** they receive | And through the **increases in value** of shares on the stock exchange |

* Increasing **dividends** and share price may go **together** for a growing company
  + Companies may pay out **too much** in dividends in the **short-term** to please their shareholders, at the expense of the **long-term success** of the business

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**Profits** can be **retained** for investment:

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| **Too** **little** investment and eventually sales and profits can stagnate or even fall | **High** **dividend** payout can therefore DESTROY **shareholder value** in the long-term |

What are some of the solutions to this problem?

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***Important issues relating to corporate objectives***

* **Based on corporate aims**
* **SMART**
* **Communicated to relevant people – effective communication**
* **Form a framework for departmental (functional) objectives**

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| ***Conflict between corporate objectives***   * **Growth** versus **profit** * **Short-term** versus **long-term** * **Stakeholder conflicts** |

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| **Change to corporate objectives**   1. Firm achieved its ‘**survival’** objective – time to grow or increase profit 2. External **environment** changed – new **competitors** – growth to survival 3. Short-term growth in sales or market share – maximise **profits** from sales |

***Factors that determine the corporate objectives of a business (read at home)***

* *Corporate culture*
* *Size and legal form*
* *Public or private sector*
* *Operating years*

Activity 4.2 (p.62)

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| ***Divisional, departmental and individual objectives***  Corporate objectives need to be broken down into specific targets for separate divisions, departments and individuals. These must:   * Coordinate * Consistent * Adequate resources |

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**Management by objectives (MBO)**

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Discussion and agreement with personnel at each level of organisation – can be an effective way of delegating authority and motivating staff:

* McGregor’s Theory Y – enjoy work, accept responsibility, creative
* McGregor’s Theory X – dislike work, avoid responsibility, not creative

**Ethical influences on business objectives and decisions**

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| **Ethics are** |

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| **Ethical code (code of conduct)** |

Most decisions have an ethical or moral dimension: For example:

* *Advertising ethics -*
* *Bribery -*
* *Investments –*
* *GM foods –*
* *Pollution -*
* *Chief executives pay ‘fat cats’ –*
* *Closures and jobs -*
* *Legal issues and exploitation –*
* *Transparency and opacity –*

The previous page presented **‘ethical dilemmas’**. Companies now have these ethical dilemmas and are more aware of their impact of their actions and not just on profits.

* If it is legal then it’s okay?
* Some things are not morally okay: who is to judge what is moral and ethical?
* What is right and wrong?

Evaluating ethical decisions:

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| ***Corporate objective*** | ***Summary*** |
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***Worksheet summary quiz and activity:***

1. Why would a firm focus on **profit maximisation** as an aim?

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1. A corporate objective could be **survival**. Explain why.

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True or false (mark an **X**)

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|  | **True** | **False** |
| 1. **Satisfying customers** is not a corporate aim |  |  |
| 1. **S** in the acronym S.M.A.R.T. means **Strategy** |  |  |
| 1. Corporate objectives are the **same** as departmental objectives |  |  |
| 1. Stakeholder are sometimes in **conflict** with an firm that maximises profit |  |  |
| 1. Paying out **high** dividends is always a good long-term strategy for a firm |  |  |

**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
| **Ethical** |  |
| **Moral** |  |
| **Stagnate** |  |
| **Clash** |  |
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