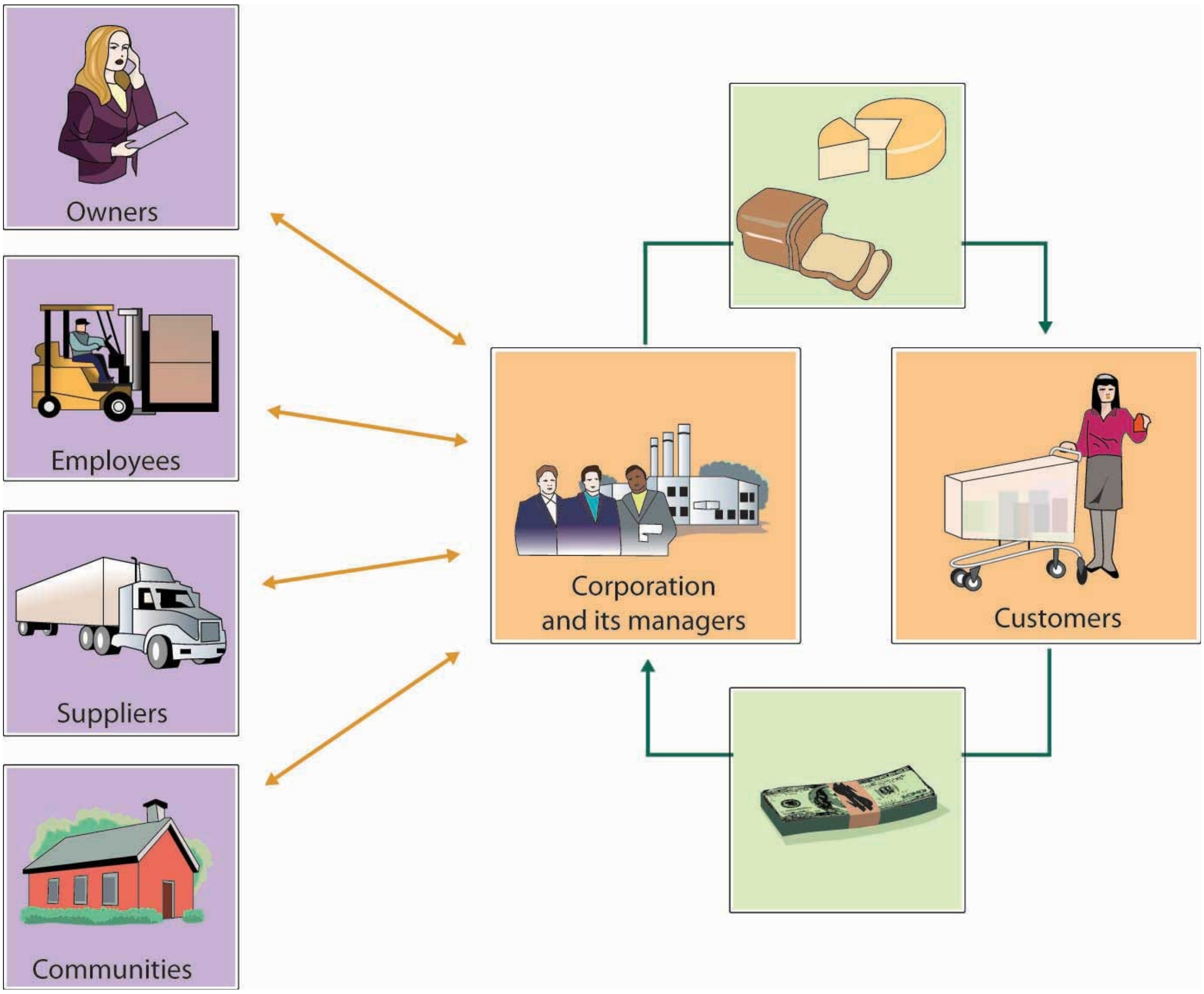
Business and its environment

(Unit 1)



- <u>The nature of business activity and the problem of choice</u>

The purpose of economic activity is to provide us as many of our wants as possible, yet we are still wanting more. This "shortage" of products and resources needed lead us to make choices considering the value, benefit, and satisfaction we receive from them. This means that scarce resources cannot satisfy unlimited wants and we have to make choices.

- <u>Opportunity cost</u>

In deciding to purchase or obtain one item we must give up other goods as they cannot be purchased; the benefit that we are giving up from not having the next most desirable item is called "opportunity cost"; it is the opportunity lost from not obtaining this item instead of the one we chose; opportunity cost is the true cost of any choice we make between alternatives; the cost of choice in terms of the next best alternative forgone

- <u>Business activity</u>

Business identify the needs of customers or other companies /organizations/; they then purchase resources in order to produce goods and services that satisfy these needs, usually with the aim of making profit; there is no perfect way to classify business activity. The method used will depend on the nature and purpose of the study being conducted. Businesses can be classified in different ways. The classification can be based on the business activity, the legal structure or whether the businesses in the public or private sectors.

- <u>Factors of production:</u>

1. Land: includes not only land itself, but all the renewable and non-renewable natural resources.
2. Labor: manual and skilled workforce of the business
3. Capital: includes not only the finance required to start up a business, but also all the man-made resources used in production /computers, machines, vehicles etc./
4. Enterprise: the driving force, provided by risk-taking individuals, that combines the other factors of production into a unit that is capable of producing goods and services; it provides a managing, decision-making and coordinating role.

- <u>Classification of goods</u>:
    - Consumer goods: physical and tangible goods sold to the general public.

- Consumer services: non-tangible products that are sold to the general public and include hotel accommodation, insurance services etc.

- Durable goods: can be used many times, the benefit is not limited by using it /cars, washing machines etc/

- Non-durable goods: can be used only once; goods that are used up when consumed once / food, drinks, sweets etc./

- Capital goods: physical goods that are used by industry to aid in the production of other goods and services /machines, commercial vehicles etc./

- <u>Added value</u>: the difference between the cost of purchasing raw materials and the price the finished goods are sold for

- <u>Entrepreneur</u>: someone who takes the financial risk of starting and managing a new venture

- Characteristics of successful entrepreneurs:
  - *Innovation*: being able to find a new niche on the market, attract consumers in innovative ways and present the business as being "different" from others in the same market. This requires original ideas and an ability to do things differently – this is the skill of innovation.
  - *Commitment and self-motivation*: willingness to work hard, keen ambition to succeed, energy and focus are all essential qualities of a successful entrepreneur
  - *Multi-skilled*: an entrepreneur will have to make the product (or provide the service), promote it, sell it and count the money. These different tasks require a person who has many different qualities, such as being keen to learn technical skills, able to get on with people and good at handling money and keeping accounting records.
  - *Leadership skills*: the entrepreneur will have to lead by example and must have a personality that encourages people in the business to follow him/her and be motivated by him/her.
  - *Self confidence and the ability to "bounce back"*: the ability to handle problems with ease
  - *Risk taking*: willing to take risks in order to see results.

- Challenges faced by entrepreneurs:
  - Identifying successful business opportunities: the original idea comes from own skills and hobbies, previous employment experience, franchising conferences and exhibitions, small-budget market research etc.
  - Sourcing capital: it turns out to be a significant problem for entrepreneurs, because of:
    - lack of sufficient own finance
    - lack of awareness of financial support and grants available
    - lack of any trading record to present to banks as evidence of past business success
    - poorly produced business plan that fails to convince potential investors
  - Determining location
  - Competition
  - Building a customer base

- Why do new businesses often fail?
  - Lack of record keeping
  - Lack of working capital
  - Poor management skills
  - Changes in the business environment

- <u>Classification of business activity</u>
  - Primary sector: firms engaged in farming, fishing, oil extraction and all other industries that *extract natural resources* so that they can be used and processed by other firms.

  - Secondary sector: those firms that *manufacture and process products* made from natural resources, including computers, brewing, baking, clothes making and construction.

  - Tertiary sector: those firms that provide *services* to consumer and other businesses, such as retailing, transport, insurance, banking, hotels and tourism.

- <u>Impact of enterprise on a country's economy</u>
  - Employment creation: employing people
  - Economic growth: any increase in output of goods or services will increase the gross domestic product of the country
  - Firms' survival and growth: although a high proportion of new firms fail, some survive and expand to become really important businesses
  - Innovation and technological change: new businesses tend to be innovative and this creativity adds dynamism to an economy.
  - Exports: some businesses will expand and start exporting
  - Personal development: starting and managing a successful business can aid in the development of useful skills and help an individual towards self-actualisation – a real sense of achievement.
  - Increased social cohesion: unemployment often lead to serious social problems and these can be much reduced if there is a successful and expanding small business sector.

- <u>Social enterprise</u>: a business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximizing returns to owners

- <u>Triple bottom line</u>: the three objectives of social enterprises, including:
  - Economic: make profit to reinvest back into the business and provide some return to owners
  - Social: provide jobs or support for local, often disadvantaged, communities
  - Environmental: to protect the environment and to manage the business in an environmentally sustainable way.

- <u>Public and private sectors</u>:
  - Public sector: organizations accountable to and controlled by central or local government /usually include health and education services, defense, public law and order/

- Private sector: businesses owned and controlled by individuals or group of individuals. Firms in the private sector can have different legal structure – the selection of the most appropriate one is a factor determining success.

➢ Legal structures of business organizations:

  - Sole trader: the most common form of business organization; one person provides the permanent finance and has full control of the business and is able to keep all the profits; all sole traders have unlimited liability – the owner's personal possessions and property can be taken to pay off debts

  - Partnerships: agreements between two or more people to carry on a business together, usually with a view of making profit; the errors and poor decisions of one partner is considered to be responsibility of them all

- Private limited companies: small firms can gain protection when the owner(s) create a private limited company; usually the shares will be owned by the original sole trader, relatives, friends, and employees; the former sole trader often still has a controlling interest; can be recognized by the use of “ltd.” or “pte”

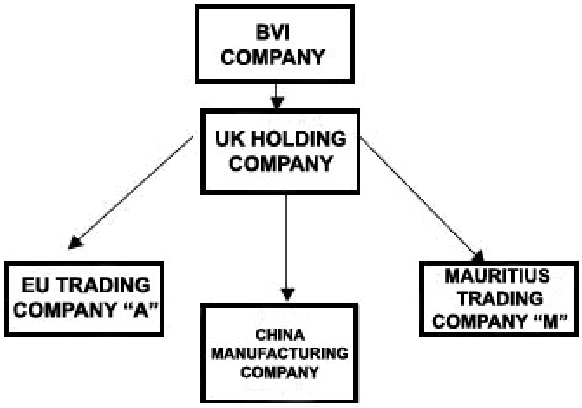
- Public limited companies: can be recognized by the use of “plc” or “inc” after the company name; it’s the most common form of legal organization for really large businesses, for the very good reason that they have access to very substantial funds for expansion; a plc has all the advantages of private company status plus the right to advertise their shares for sale and have them quoted on the Stock Exchange; this not only means that public limited companies can raise potentially very large sums from public issues of shares but that existing shareholders may quickly sell their shares if they wish to; this flexibility of share buying and selling encourages the public to purchase the shares in the first instance and thus invest the business; the other main difference between private and public companies concerns the “divorce between ownership and control” – due to the sheer volume of shares issued and number of people and institutions as investors the shareholders own the company, but they appoint a Board of Directors who control the management and decision-making of the business; this clear distinction between ownership and control can lead to conflicts, for example over the objectives to be set and direction to be taken by the business.

- State-owned enterprise: usually owned by central or local government; these organizations are therefore in the public sector and they are referred to as public corporations; they do not often have profit as a major objective
- Cooperatives: all members contribute equally to the running of the business, sharing the workload, responsibilities and decision making, although in larger cooperatives some delegation to professional managers takes place; all members have one vote at important meetings; profits are shared equally among members

- Franchise: a business that uses the name, logo and trading systems of an existing successful business

- Joint venture: two or more businesses agree to work closely together on a particular project and create a separate business division to do so

- Holding companies: a business organization that owns and controls a number of separate businesses, but does not unite them into one unified company



Legal structure	Advantages	Disadvantages
Sole trader	• Easy to set up – no legal formalities • Owner has complete control • Owner keeps all profit • Able to choose time and patterns of working • Able to establish close personal relationship with the staff and customers • The business can be based on the interest and skills of owner	• Unlimited liability • Often faces intense competition from bigger firms • Owner is unable to specialize in areas of business that are most interesting – is responsible for all aspects of management • Difficult to raise additional capital • Long hours often necessary to make business pay • Lack of continuity – when the owner dies, the business dies too
Partnership	• Partners may specialize in different areas of business management • Shared decision making • Additional capital injected by each partner • Business losses shared between the partners • Great privacy and fewer legal formalities than corporate organizations	• Unlimited liability for all partners • Profits are shared • No continuity and the partnership has to be reformed in the case of death • All partners are bound by the decision of any one of them • Not possible to raise capital from selling shares • A sole trader, taking on partners, will lose independence of decision-making

Private limited company	• Shareholders have limited liability • Separate legal personality • Continuity in the event of the death of a shareholder • Original owner is still often able to retain control • Able to raise capital from sale of shares to family, friends and employees • Greater status than an incorporated business	• Legal formalities involved in establishing a business • Capital cannot be raised by sale of shares to the general public • Quite difficult for shareholders to sell shares • End of year accounts must be sent to Companies House – available for public inspection there (less secrecy over financial affairs than sole trader or partnership)
Public limited company	• Limited liability • Separate legal identity • Continuity • Ease of buying and selling of shares • Access to substantial capital sources due to the ability to issue a prospectus to the public and to offer shares for sale	• Legal formalities in formation • Cost of business consultants and financial advisers when creating such a company • Share prices subject to fluctuations – sometimes for reasons beyond business control, for example state of the economy • Legal requirements concerning disclosure of information to shareholders and the public, for example annual publication of detailed report and accounts • Risk of takeover due to the availability of the shares on the Stock Exchange • Directors influenced by short-term objectives of major investors
Cooperatives	• Buying in bulk • Working together to solve problems and take decisions • Good motivation of all members to work hard as they will benefit from shared profits	• Poor management skills, unless professional managers are employed • Capital shortages because no sale of shares to the non-member general public is allowed • Slow decision-making if all members are to be consulted on important issues
Franchise	• Fewer chances of new businesses failing as an established brand and product are being used • Advice and training offered by the franchiser • National advertising paid for by franchiser	• Share of profits or sales revenue has to be paid to franchiser each year • Initial franchise license fee can be expensive • Local promotions may still have to be paid for by the franchisee • No choice of suppliers or supplies • Strict rules over pricing and layout/design of the outlet • Reduced control of business's owner

	• Supplies obtained from established and quality-checked suppliers • Franchiser agrees not to open another branch in the local area	
Joint ventures	• Costs and risks are shared • Different companies might have different strengths and experiences and they therefore fit well together • They might have their major markets in different countries and they could exploit these with the new product more effectively than if they both decided to "go alone"	• Styles of management and culture might be different and conflicts might occur • Errors and mistakes might lead to one blaming the other for them • The business failure of one of the partners would put the whole project at risk.
Public sector organization	• Managed with social objectives rather than solely with profit objective • Loss-making services might still be kept operating if the social benefit is great enough • Finance raised mainly from the government	• Tendency towards inefficiency due to lack of strict profit targets • Subsidies from government can also encourage inefficiencies • Government may interfere in business decisions for political reasons, for example, by opening a new branch in a certain area to gain popularity

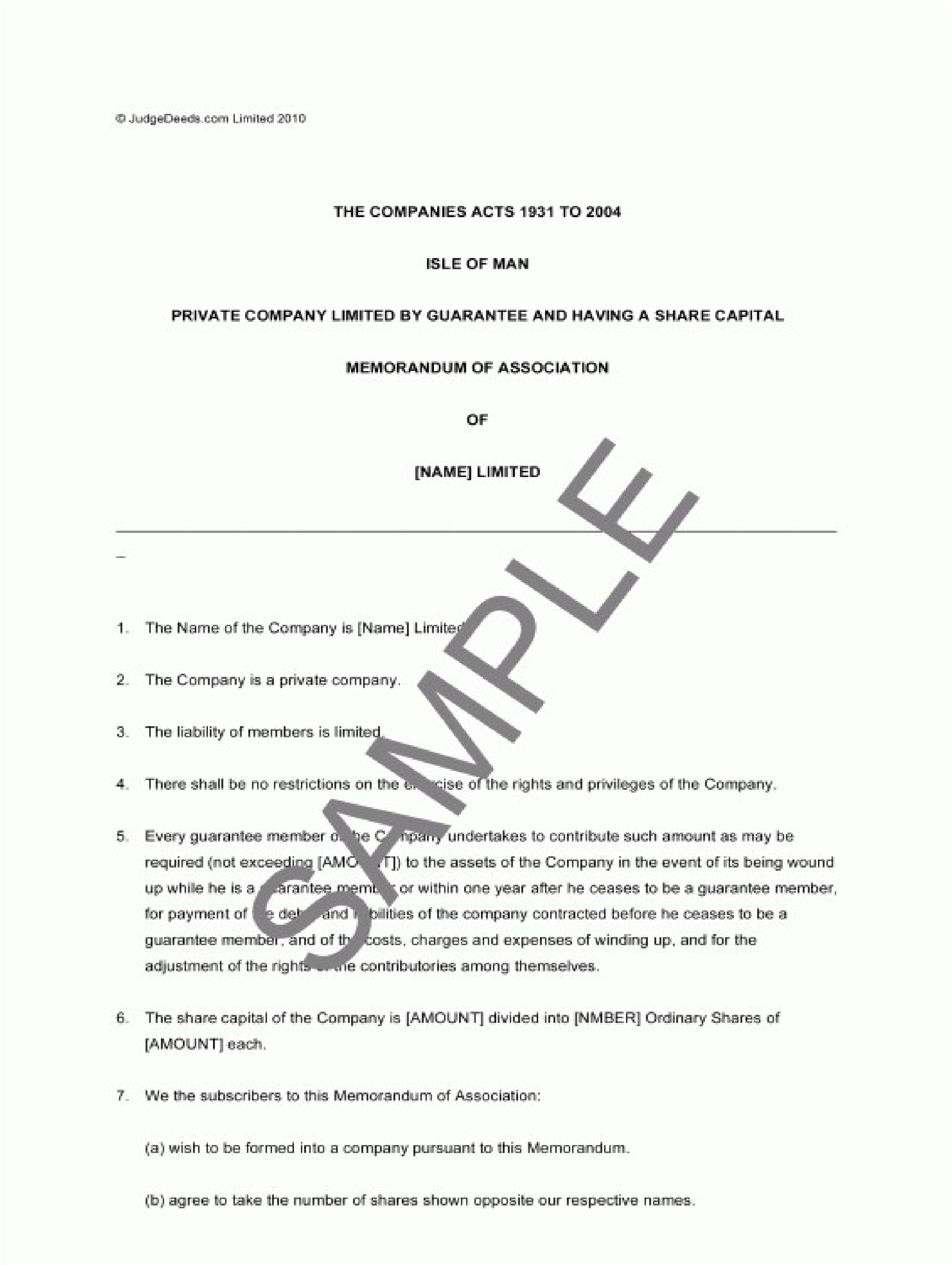
- Legal elements: limited liability, legal personality, and divorce between ownership and control

    - Limited liability: the ownership of the companies is divided into small units called *shares*; people can buy these and become shareholders – part owners of the business, so they get limited liability in the company

    - Legal personality: a company is recognized in law as having a *legal identity* separate from that of its owners; this does not take all legal responsibilities away from managers and owners, they must still act responsibly and in accordance with the stated aims of the business and within the law

- Divorce between ownership and control: splitting the actual *ownership* of the organization and the *control* over decision-making and management processes /usually performed by a Board of Directors/

- Memorandum of Association vs. Articles of Association
  - Memorandum of Association: states the name of the company, the address of the head office through which it can be contacted, the maximum share capital for which the company seeks authorization and the declared aims of the business



THE COMPANIES ACTS 1931 TO 2004

ISLE OF MAN

PRIVATE COMPANY LIMITED BY GUARANTEE AND HAVING A SHARE CAPITAL

MEMORANDUM OF ASSOCIATION

OF

[NAME] LIMITED

1. The Name of the Company is [Name] Limited.
2. The Company is a private company.
3. The liability of members is limited.
4. There shall be no restrictions on the exercise of the rights and privileges of the Company.
5. Every guarantee member of the Company undertakes to contribute such amount as may be required (not exceeding [AMOUNT]) to the assets of the Company in the event of its being wound up while he is a guarantee member or within one year after he ceases to be a guarantee member, for payment of the debts and liabilities of the company contracted before he ceases to be a guarantee member, and of the costs, charges and expenses of winding up, and for the adjustment of the rights of the contributories among themselves.
6. The share capital of the Company is [AMOUNT] divided into [NMBER] Ordinary Shares of [AMOUNT] each.
7. We the subscribers to this Memorandum of Association:

   (a) wish to be formed into a company pursuant to this Memorandum.

   (b) agree to take the number of shares shown opposite our respective names.

- Articles of Association: this document covers the internal workings and control of the business – for example, the names of directors and the procedures to be followed at meetings will be detailed

COMPANIES ACT 2006

ISLE OF MAN

ARTICLES OF ASSOCIATION

OF

[NAME] PLC

A PUBLIC COMPANY LIMITED BY SHARES

1. **Definitions and Interpretation**

1.1 In the Articles, if not inconsistent with the subject or context –

1.1.1 "the **Act**" means the Companies Act 2006 including any statutory modification or re-enactment of it for the time being in operation;

1.1.2 "**Articles**" means the Articles of Association of the Company as amended from time to time;

1.1.3 "**Board**" means the board of Directors;

1.1.4 "**Chairman of the Board**" shall be construed in accordance with Article 19.2;

1.1.5 **"Class"** in relation to Shares, means a class of Shares each of which has identical rights, privileges, limitations and conditions attached to it;

1.1.6 **"Director"** means a director of the Company;

1.1.7 "**Distribution**" means, in relation to a distribution by the Company to a B Shareholder, the direct or indirect transfer of any assets, other than B Shares, to or for the benefit of a B Shareholder or the incurring of a debt to or for the benefit of a B Shareholder, in relation to B Shares held by that B Shareholder, and whether by means of the purchase of an asset, the purchase, redemption or other acquisition of B Shares, a transfer or assignment of indebtedness or otherwise, and includes a dividend;

1.1.8 "**Memorandum**" means the Memorandum of Association of the Company as amended from time to time;

1.1.9 **"person"** includes a body corporate;

1.1.10 "**Registrar**" means the Registrar of Companies appointed under section 205 of the Act;

- Function of an economy: the *basic economic problem* is related to *scarce resources* in relation to our unlimited wants. That is why choices have to be made mainly considering the effective and efficient allocation of resources. Scarcity requires all economic agents – consumers, businesses, and the government – to make choices about how these resources to be allocated. The basic economic questions are:
  - What should be produced? / What to produce?

  As resources are scarce it is impossible to make everything that people might want. Choices must be made regarding what should be produced.
  - How should goods be produced? / How to produce?
  - Who is production produced for? / For whom to produce?

- Types of economic systems:
  - Market economies: in this economic system all the economic resources are privately owned and allocated towards making those products that consumers wish to buy; firms obtain information about the products that consumers most and least want to buy through price levels and price changes; firms operate in order to make profits; decisions on how resources are to be allocated are taken by millions of households and thousands of firms; they interact as buyers and sellers in the market for goods and services; prices and the operation of the price system support this interaction; in turn, prices act to indicate the likely market value of particular resources; consumers' sovereignty influences resource allocation; the government has a very restricted part to play; market economy is an ideal which does not exist in today's complex, globalized economy, it is a theoretical model.

  - Planned economies: state ownership and/or control of most of the economic resources; central state planning decides what should be produced, the production methods to be used and how output should be distributed among the population; consumers have little influence over what is produced, and the use of prices to indicate consumer preferences for goods is unimportant; the government has a central role in all decisions that are made and unlike market economy, the emphasis is on centralization; decision making is taken by central planning boards and organizations to enterprises that are state-owned or under state regulation and control; central planners determine the collective preferences of consumers and manufacturing enterprises; unemployment is not an issue; central government and its constituent organizations take responsibility for the allocation of resources, the determination of production targets for all sectors of the economy, the distribution of income and the determination of wages, the ownership of most productive resources and property, planning the long-term growth of economy

- Mixed economy: many products and services are provided only by private businesses not by the state, such as cars, computers etc.; most essential services, such as police, fire service, defense, prisons etc. are only provided by the state; many important goods and services, which can benefit society as well as the consumer are provided by both the state and the private sector of industry, such as schools, health care etc.; in order to finance state-operated services, the population pays taxes to the government; the government places limits on the nature of business activity by, for example taking measures to control pollution from factories and by restricting monopoly powers of some firms; the characteristic form of economic organization within the global economy; it involves both public and private sectors in the process of resource allocation; decisions on most important economic issues involve some form of planning (by private as well as public organizations) and interaction between government, businesses, and labor through the market mechanism; private ownership of productive resources operate alongside public ownership in many economies; it is the most common type of economic system; it combines both free markets and government intervention.

Type of economic system and main features	Possible advantages	Possible disadvantages
Free market system: - private property	Profit motive should make firm operate efficiently	Monopolies might be created as business owners see the gains to be made from reducing competition

- profit motive - price system	Competition should help to keep prices low and lead to release of new products	No state support for the elderly, unemployed etc.
	Consumers have choices	No government control over pollution.
	Work is encouraged as taxes are very low, and there will be no state support for non-workers	Income differences, which are likely to be substantial, not reduced by taxes
Planned system: - state ownership /control of economic resources - very little private sector business activity	Central planning prevents duplication and wasteful competition, for example in supply of bus services	No consumer choice
	Production decisions are based on the state's assessment of people's needs – not consumer spending patterns	No competition to improve product design and keep costs and prices low
	Allows for long-term planning – private firms often interested in short-term profits	Workers may be poorly motivated – no gains from working harder or showing enterprise to make a business successful
		Very slow and bureaucratic decision making.
Mixed economies: - private sector business activity encouraged - state controls resources in supply of certain goods and services - taxes used	State provides essential services for all in society – whether rich or poor.	Taxes may be heavy to pay for state goods and services – this could reduce incentives to work hard or make profits
	Private sector still encouraged to be successful and allowed to earn profits from enterprise	State organizations can be less efficient than private sector alternatives
	Competition allows the advantages seen in a free market economy	
	Consumer choice exists and work incentives too	
	Inefficient business behavior is controlled or outlawed, for example dangerous products or	Excessive controls over business activity can add to costs and

to collect revenue to pay for state goods and services	polluting factories.	discourage enterprise.

- International trading links

Advantages	Disadvantages
By buying products and services from other nations (importing) consumers are offered a much wider choice of	Loss of output and jobs from those domestic firms that cannot compete with imported goods and services
Importing products creates additional competition for domestic industries and encourage them to keep costs and prices down as well as to keep quality high	There may be a decline in domestic industries that produce very important 'strategic' goods /coal, foodstuffs/; this could put the country at risk if there is a conflict between countries or another factor leads to a loss of imports
	The switch from making goods that cannot compete with imports to those in which the country has a comparative advantage may take a long time
Countries can begin to specialize in those products they are best at making if they import those that they are less efficient at from other countries	Newly established businesses may find it impossible to survive against competition from existing importers
	Some importers may 'dump' goods at below cost price in order to eliminate domestic competition
	If the value of imports exceeds the value of exports for several years this could lead to a loss of foreign exchange

- Free trade and trade barriers:

Free trade means that no restrictions or trade barriers exist which might prevents or limit the trade between countries. The movement towards free trade is increasing the volume of world trade

The most common forms of trade barriers are:

- Tariffs: taxes imposed on imported goods to make them more expensive then they would otherwise be
- Quotas: limits on the physical quantity or value of certain goods that may be imported

- Voluntary export limits: this is the case where an exporting country agrees to limit the quantity of certain goods sold to one country (possibly to prevent tariffs/quotas being imposed)

✓ Multinationals: business organizations that have their headquarters in one country, but operating branches, factories and assembly plants in others; these firms are more than importers and exporters – *they actually produce goods and services in more than one country* Multinationals are benefiting from the globalization of the world economy. Multinationals can have both beneficial and damaging effects on national economies.

- Why become a multinational?

  - Nearness to market: lower transportation costs for the finished goods; better market information regarding consumer tastes; may be looked upon as a local company and gain customer loyalty as a consequence

  - Lower costs of production: lower labor rates due to much lower demand for local labor compared to developed countries; cheaper rent and site costs, again resulting from lower demand for commercial properties; government grants and tax incentives designed to encourage the industrialization of such countries

  - Avoid import restrictions: by producing in the local country there will be no import duties to pay and no other import restrictions

  - Access to local natural resources

- Potential problems with multinationals

  - Communication links with headquarters may be poor

  - Language and cultural differences with local workers and government officials could lead to misunderstandings

  - Coordination with other plants in the multinational group will need to be carefully monitored

- Conflicting policies may be adopted
- Skills level of local employees may be low

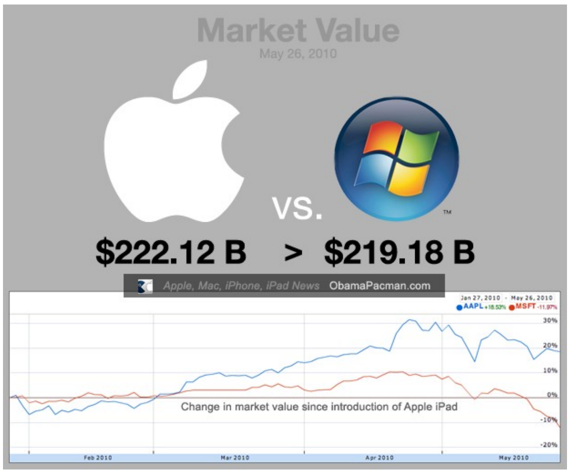
➢ Impact of multinationals to “host” countries:

- Bringing foreign currency in
- If the output of the plant is exported more foreign exchange will be earned
- Employment opportunities
- Additional jobs and incomes for the local companies which are likely to supply the new factory
- Tax revenues to the government will be boosted from the sales of the plant and the profit it makes
- Management expertise in the community will slowly improve when and if foreign supervisors and managers are replaced by local staff
- The total output of the economy will be increased and this will raise GDP /gross domestic product/
- Exploitation of the local workforce might take place
- Pollution from plants might be at higher levels
- Local competing firms may be squeezed out of business due to inferior equipment and smaller resources
- ‘imposing Western culture’ on societies – McDonalds
- Profits may be sent back to the base country rather than kept for reinvestment in the host country

➢ Different criteria for measuring size of a business:

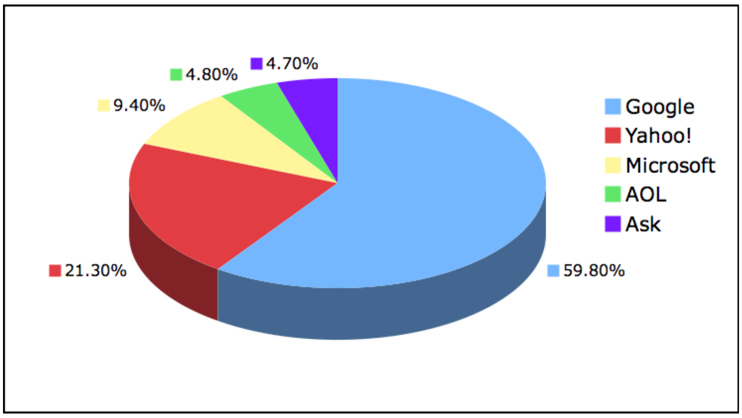
- Number of employees
- Sales turnover: this method is used especially in cases when comparing firms in the same industry
- Capital employed: measures the total value of all long-term finance used in the business
- Market capitalization: this can only be used for businesses which have shares ‘quoted’ on the Stock Exchange

MC = Current share price X total number of shares



- Market share

MS = (Total sales of business / Total sales of industry) X 100



➢ Small business

Advantages	Problems	Government assistance
Job creation	Lack of management expertise	Reduced rate of profits tax
Creating variety in the market /very often driven by dynamic entrepreneurs	Problems in raising capital	Loan guarantee scheme
Competition for large businesses	Marketing risks from a limited product range	Providing information, advice, and management
The large firms of the future are small firms today	Difficulty in finding suitable and reasonably priced premises	Financial aid

Lower average costs		

- Internal growth (a.k.a. organic growth): expansion of a business by means of opening new branches, shops or factories.

- Hierarchy of objectives

- Corporate aims: very long-term goals which a business hopes to achieve; the core of a business activity is expressed in its corporate aims and plans
- Mission statements: this is an attempt to condense the central purpose of a business's existence into one sentence; it is not concerned with specific, quantifiable goals but tries to sum up the aims of the business in a motivating and appealing way; mission statement (by definition) is a statement of business's aims, phrased in a way to motivate employees and to stimulate interest by outside groups.
- Corporate objectives: based upon the central aim or mission of the business but they are expressed in terms that provide a much clearer guide for management action or strategy
  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. They need to be turned into goals or targets which are quite specific to each business and which can, themselves, be broken down into strategic departmental targets.
- Divisional, departmental and individual objectives
  Once corporate objectives have been established they need to be broken down into specific targets foe separate divisions, departments and, ultimately, individuals. Corporate objectives relate to the whole organization. They cannot

be used by each division of the business to create strategies for action until they have been broken down into meaningful targets focusing on divisional goals.

- Types of corporate objectives:

  - Maximizing profits: all the stakeholders in a business work for a reward. Profits are essential in rewarding investors in a business and for financing further growth. Profit maximization means producing at the level of output where the greatest positive difference between total revenue and total cost is achieved. The chief argument in support of this objective is that it seems rational to seek the maximum profit available from a given venture. Limitations of this objective include: the focus on high short-term profits may encourage competitors to enter the market; many businesses seek to maximize sales in order to secure the greatest market share possible, rather than maximizing profits; the owners of smaller businesses may be more concerned with ensuring that leisure time is safeguarded; most business analysts assess the performance of a business through return on capital employed rather than through total profit figures; profit maximization may well be the preferred objective of the owners and shareholders but other stakeholders will give priority to other issues; in practice, it is extremely difficult to assess whether the point of profit maximization is reached.

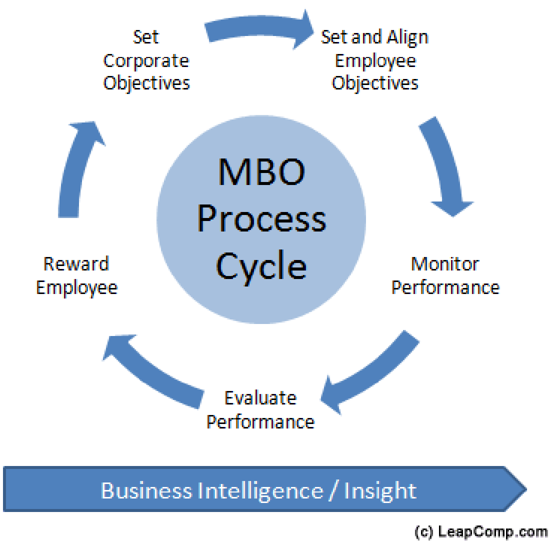
  - Growth: the growth of the business /usually measured in terms of sales/ has many potential benefits for the owners and managers; larger firms will be less likely to be taken over and should be able to benefit from economies of scale; managers will be happy to see the business achieves its full potential, from which they may gain higher salaries and fringe benefits. However, there are some limitations to business objectives based on growth:
    - Expansion which is too rapid can lead to cash flow problems
    - Sales growth might be achieved at the expense of lower profit margins
    - Larger businesses can experience diseconomies of scale
    - Using profit to finance growth can lead to lower short-term returns to shareholders
    - Growth into new business areas and activities /which are away from firm's core activities/ can result in a loss of focus and direction for the whole organization

- Increasing market share: closely linked to overall growth of a business. Although the two are usually related, it is possible for an expanding business to suffer market share reductions, if the market is growing at a faster rate than the business itself. Increasing market share indicates that the marketing mix of the business is proving to be more successful than that of its competitors. Benefits resulting from having the highest market share /being market leader/ include: retailers will be keen to stock and promote the best-selling brand; profit margins offered to retailers may be lower than competing brands as the shops are so keen to stock it; effective promotional campaigns are often based on "buy our product with confidence – it is the brand leader"

- Social, ethical and environmental: increasingly, consumers and other stakeholders are reacting positively to businesses that act in "green" or socially responsible ways /e.g. firms promoting organic and vegetarian foods, retailers emphasizing the proportion of their products made from recycled materials, businesses refusing to stock goods that have been tested on animals etc./. Firms are being ethical or environmentally conscious because they have the so called "public responsibility", because they want to behave in these ways. There is a real and growing concern for ethical behavior and environmental issues amongst businesses. Businesses considering the interests of society by taking responsibility for the impact of their decisions and activities on customers, employees, communities and the environment are applying the concept of CSR (corporate social responsibility).

- Other corporate objectives:
  - Maximizing sales revenue
  - Maximizing shareholders value /taking decisions that would increase share prices and returns to shareholders/
  - Concentrating on core activities /in organizations with interests in a wide range of industries/

- Corporate objectives:
  - must be based on corporate aim
  - should be achievable and measurable if they are to motivate employees
  - need to be communicated to employees and investors in the business
  - will form the framework of more specific departmental or strategic objectives
  - should indicate a time scale for their achievement
- Management by objectives (example)
  - aim: to maximize shareholder value
  - corporate objectives: to increase profits of all divisions by 10% per year
  - divisional objectives: within one region, to increase market share by 10% and cut overheads by 5%
  - departmental objectives: increase profit margins by 7% (marketing); reduce long-term borrowing by 5% (finance); develop one innovative product each year (R&D)
  - individual targets: increase sales by an average of 5% per client; introduce five more clients to the business each year



➢ Conflicts between corporate objectives

- Growth vs. profit

- Short-term vs. Long-term

- Stakeholder conflicts

- Factors determining corporate objectives:
  - corporate culture: the values, attitudes and beliefs of the people working in an organization that control the way they interact with each other and with external stakeholder groups

  - the size and legal form of the business
  - whether the organization is operating in the public or private sector of the economy
  - the number of years the business has been operating

- Ethical influences on business objectives and decisions
  - ethics: the moral guidelines that determine decision making
  - ethical code (code of conduct): a document detailing a company's rules and guidelines on staff behavior that must be followed by all employees

- Stakeholders: people or groups of people who can be affected by, and therefore have an interest in any action by an organization. Examples include customers, suppliers, employees and their families, local communities, government and government agencies.

Group	***Roles***	***Rights***	***Responsibilities***
Customers	• Purchase goods and services • Provide revenue from sales	• To receive goods and services that meet local laws • To be offered replacements, repairs, compensations in the event of failure	• To be honest and to pay • Not to steal • Not to make false claims about poor service, under-performing goods or failed items
Suppliers	• Supply goods and services to allow businesses to offer its products to its own customers	• To be paid on time • To be treated fairly	• To supply goods and services ordered by the business in the time and condition as laid down by the purchase contract or supplier's service agreements
Employees	• Provide manual and other labour services to the business	• To be treated within the minimum limits as established by national law, e.g. minimum wage • To be treated and paid in the ways described in the employment contract • To be allowed to join a trade union if desired	• To be honest • To meet the conditions and requirements of the employment contract • To cooperate with the management in all reasonable requests • To observe the ethical code of conduct

Local community	• Provides local services and infrastructure to the business to allow it to operate, produce, and/or sell within legal limits	• To be consulted about major changes that affect it • Not to have the community's lives badly affected by the business's activities	• To cooperate with the business where reasonable to do so • To meet reasonable requests from business for local services, such as public transport and waste disposal
Government	• Passes laws restraining many aspects of the business's activity • Provides law and order to allow legal business activity to take place • Achieves economic stability to encourage business stability	• Businesses have the duty to meet all legal constraints, such as producing only legal goods, and to pay taxes on time.	• To treat businesses equally under the law • To prevent unfair competition that could damage business survival chances • To establish good trading links with other countries to allow international trade.

- Corporate social responsibility: the concept that accepts that the business should consider the interests of society in its activities and decisions, beyond the legal obligations that it has.

- Social audit: a report on the impact a business has on society. This can cover pollution levels, health and safety record, sources of supplies, customer satisfaction and contribution to the community.

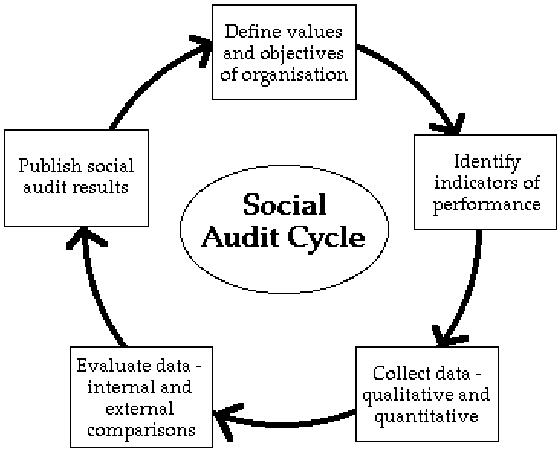


Figure 1: The Social Audit Cycle