1.3 Business Objectives

What you should know-

- ✓ Vision statement and Mission statement
- ✓ Common business objectives including:
  - ✓ Growth
  - ✓ Profit
  - ✓ Protecting shareholder value, and
  - ✓ Ethical objectives
- ✓ Strategic and tactical objectives
- ✓ Corporate social responsibility (CSR)

Vision Statement **

A **vision statement** is an inspiring statement that provides all stakeholders with information about the organization's purpose, its values, and what it strives to achieve in the distant future. It focuses on tomorrow (the very long-term) and what the organization wants to ultimately become. The vision statement is intended to act as a clear guide for key stakeholders when planning and implementing current and future corporate strategies.

Mission Statement**

A mission statements complement vision statements by explaining what the organization does, right now, at the present time, in order to achieve its vision. If the vision statement expresses what the firm would like to accomplish, the mission statement describes what it actually does.

Good tip 1!

The difference between vision and mission statements can be rather confusing and the interpretations rather blurred. One useful way to remember the key difference is:

Vision statement = Some day

Mission statement = Every day

In other words, a vision sets out the ultimate dream of an organization; where is strives to be some day / one day in the distant future (if it ever gets there).

A mission statement declares the purpose of the organization, and what it stands for. These do no change on a day to day basis, so the mission statement is what the business is in existence for, every day.

Role of Vision and Mission statement**

- ✓ It gives stakeholders of an organization a sense of purpose and direction.

- ✓ It can help to motivate employees, especially if the values of the organization are aligned with those of the workers. They help employees to keep long-term goals and dreams in mind as they work through their operations.

- ✓ It serves to guide the organization’s strategies and strategic objectives

- ✓ Vision and mission statements are also read by interested parties outside the organisation, in order to better understand the organization's purpose and priorities. If a business does not live up to its vision and mission, it can lose credibility in the eyes of customers and other stakeholders.

Common Business Objectives

Objectives are the goals or targets an organization strives to achieve. They are generally specific and measurable and are set in line with the organization's mission statement.

These objectives are based on smart acronyms-specific, measurable, achievable, relevant and time-related. An example of a SMART objective for a multinational company might be "to achieve sales of €10 million in European markets by 2023."

- ✓ Like vision and mission statements, business objectives can give employees and managers a genuine sense of direction (and purpose). Hence, they can help to motivate employees and raise labour productivity.
- ✓ Business objectives are essential in all organizations so that people know where they are striving to go or what they are trying to accomplish.
- ✓ They give people a sense of common purpose, thus promote a greater sense of belonging and team spirit (cohesiveness).
- ✓ Business objectives also enable organizations to measure progress towards to their stated goals and targets.

The following are the four business objectives:

The ***growth*** of the business is measured by increase in its sales revenue or by its market share (the firm's sales revenue expressed as a percentage of the industry's total revenue.

Traditionally, the main business objective of most private sector organization is to ***maximize profits.*** Profit as a business objective is important for two main reasons:

- ✓ It acts as a reward for the owners and investors of the business.
- ✓ It provides an internal source of finance to further develop the business.

Profit acts as an incentive for entrepreneurs to take risks and start up new businesses.

A company is owned by its shareholders. ***Protecting shareholder value*** is about safeguarding the interests of the owners of a limited liability company (one owned by shareholders either as a private or publicly traded company). Protecting shareholder value is ultimately the responsibility of the company's chief executive officer (CEO) and board of directors, based on their strategic plans to earn a healthy return on the capital invested in the business (in the form of dividends)

Ethics are the moral principles that guide decision making and business strategy. They are, essentially, about what is deemed to be right and what is considered to be wrong, i.e. morality from society's point of view. Business ethics are the guiding principles that provide moral guidelines for the conduct of business activities. This means such businesses act morally towards their various stakeholder groups, including employees, managers, customers, shareholders, suppliers, financiers, local community (including consideration for the natural environment), the government, and even competitors.

<u>Examples of ethical objectives include:</u>

- ✓ High standard of health and safety in the workplace
- ✓ Disposal of waste in environmentally sustainable manner
- ✓ Adopting green (clean/renewable) technologies
- ✓ Using socially responsible advertising
- ✓ Ethical accounting practices
- ✓ The fair treatment of suppliers

<u>Examples of unethical business practices include:</u>

- ✓ Low paid workers
- ✓ Child labour
- ✓ Suppliers paid late
- ✓ Poor delivery of services to customers
- ✓ Exploitation of natural environment
- ✓ Fraudulent business activities

Business objectives can be categorized as long-term (strategic objectives) or short-term (tactical objectives).

STRATEGIC OBJECTIVES

- A strategy is a medium to long term plan or action for achieving an aim or objective. Strategies are generally considered to involve important decisions that may be risky and are taken by senior management.

- For example, a strategic objective might be to improve the market share of a company by expanding its product portfolio in a particular market. This will take a longer time to achieve than tactical objectives.

TACTICAL OBJECTIVES

- A tactic is a short-term method for achieving an aim or objective. Compared to strategies, tactics usually involve fewer resources and may be less risky. They may therefore not involve senior management because they can be more easily reversed or modified compared to strategies.
- Typically, tactical objectives have a pre-determined time frame of less than a year. An example of such an objective is to improve labour productivity in the workplace by using non-financial methods to motivate the workforce.

Ethical Objectives**

Corporate social responsibility (CSR) refers to the value, decisions, and actions taken by a business that impact society in a positive way. It is about an organization's moral obligations to its stakeholders, the community, society as a whole, and the natural environment. CSR is about an organization using ethical objectives to commit to behaving in a socially responsible way towards its internal and external stakeholders, not just to the owners or shareholders of the business.

As part of its corporate social reasonability (CSR) strategy, businesses may establish an **ethical code of practice.** Pursuing ethical objectives is an ongoing and long-term journey for businesses. However, there can be substantial advantages and disadvantages from doing so.

Advantages**	Disadvantages**
Improved brand image: Acting ethically and in a socially responsible way can help to enhance the corporate image and reputation of the business. his can generate additional long-term gains for the business such as improved sales and consumer loyalty. By contrast, acting can certainly lead to negative publicity from the mass media, leading to serious damage to the organization's reputation.	**Compliance cost/production cost:** There are costs associated with implementing ethical behaviours and corporate social responsibility. These costs are potentially extremely high. For example, supermarkets have to spend more on purchasing organic fruits, vegetables, and meats rather than genetically modified produce. The costs of production are also higher for ensuring employees are paid fair wages rather that exploiting workers.
Increased customer loyalty: It will attract more customers and profit as they are likely to be try, stay loyal to, pay a premium pricing for business pursuing long-term objectives with a social and/or environmental focus. For example, customers are likely to prefer to be loyal to cosmetics companies that do not test their products on animals but actively take actions to protect the natural environment.	**Higher Prices:** High compliance costs can lead prices having to be raised in order to maintain profit margins. Furthermore, rival businesses might not implement ethical objectives and could have lower costs as a result. This can reduce the price competitiveness of the business as it pursues its ethical objectives and corporate social responsibilities.
Higher sales revenue: customers tend to prefer to buy from businesses that act morally and have ethical goals. They do not tend to knowingly purchase products from businesses that cause significant harm to the natural environment or exploit child labour, for example. Hence, ethical businesses can gain from higher sales revenue in the long-term.	**Lower profits:** The compliance costs of acting ethically, such as the adoption of green technologies or the sourcing of fair-trade raw materials, means higher production costs for the business and hence lower profitability. This would then lead to lower dividend payments made to shareholder or business owners.

Improved staff morale and motivation: Employees feel better working for a business that does the "right" things, from society's point of view, beyond just obeying the laws of the country. Higher staff morale also helps to improve labour productivity and the level of employee motivation. This could therefore benefit profits of the company.	**Shareholder conflict:** Not all the stakeholders are keen on firm adopting ethical objectives, especially when there is a conflict with other business objectives such as profit maximization. Shareholders, and investors may be interested in short term profits like dividends rather than long term profits by acting ethically. Hence, this can put pressure on managers to pursue other business objectives other ethical objectives and CSR practices.
Increased employee loyalty - Similarly, ethical business practices help to attract and retain highly motivated employees. In particular, highly qualified and skilled employees may not be willing to work for unethical businesses. Having a good corporate image and reputation for ethical business practices makes it significantly easier for organizations to attract, hire, and retain employees.	
Ultimately, actively pursuing ethical business objectives can be beneficial for the organization's triple bottom line (people, planet, and profits).	

KEY TERMS

- **Corporate social responsibility:** refers to the value, decisions, and actions taken by a business that impact society in a positive way. It is about an organization's moral obligations to its stakeholders, the community, society as a whole, and the natural environment.

- **Mission statement:** complement vision statements by explaining what the organization does, right now, at the present time, in order to achieve its vision.

- **Vision statement:** is inspiring or aspirational declaration of what an organization ultimately strives to be, or wants to achieve, in the distant future.

- **Strategies:** is a medium to long term plan or action for achieving an aim or objective. Strategies are generally considered to involve important decisions that may be risky and are taken by senior management

- **Tactics:** is a short-term method for achieving an aim or objective. Compared to strategies, tactics usually involve fewer resources and may be less risky. They may therefore not involve senior management because they can be more easily reversed or modified compared to strategies.