

Chapter 2: Business objectives

Getting started...

Businesses exist to produce goods and services for consumers and other businesses. However, the owners of businesses will want to achieve certain objectives. Most business owners want to make a profit. They risk their own money when setting up a business and aim to make a financial return. However, there are other objectives which businesses might try to achieve. Look at the two examples below.

The Bahrain Central

The Bahrain Central is a three star hotel located in Manama, the capital of Bahrain. The owners of the hotel have recently met with the hotel manager and agreed a two-year plan to increase profitability. The owners want to raise profit from 120,000 to 200,000 Bahraini Dinars. The hotel manager hopes to cut costs and increase room occupancy by aiming more advertising at business customers.

British Airways

British Airways (BA) lost a record £401 million in 2009 and is struggling to survive. BA said it will ground aircraft, reduce the number of seats for sale and postpone the purchase of 12 A380 super jumbos as it faces a fall in passengers. BA also said that it was cutting the number of seats for sale by 3.5 per cent instead of the original 2.5 per cent.

In addition, BA staff voted for a pay cut to save jobs. However, senior managers turned them down. Unite, the union which represents 28,000 of BA's 40,000 workforce, put forward a pay plan to help BA save more than £200m. This was after managers wrote to all staff asking them to volunteer to work for nothing.

- (a) What is (i) The Bahrain Central and (ii) BA trying to achieve?
- (b) Describe briefly the measures being taken by (i) The Bahrain Central and (ii) BA to achieve their objectives.



Figure 2.1 A hotel in the Middle East



Figure 2.2 British Airways aircraft

The importance of clear objectives

Businesses are more likely to be successful if they set clear objectives. Businesses need to have objectives for the following reasons:

- Employees need something to work towards. Objectives help to motivate people. For example, sales staff might get bonuses if they reach certain sales targets.
- Without objectives owners might not have the motivation needed to keep the business going. Owners might lose grip and allow their business to 'drift'. This might result in business failure.

- Objectives help to decide where to take a business and what steps are necessary to get there. For example, if a business aims to grow by 10 per cent, it might decide that launching products overseas might be the best way to achieve this.
- It is easier to assess the performance of a business if objectives are set. If objectives are achieved it could be argued that the business has performed well.

Private sector objectives

In the *private sector*, where businesses are owned by individuals or groups of individuals, the following objectives are common:

- **Survival:** All businesses will consider survival as important. However, from time to time survival may be *the* most important objective. For example, when a business first starts trading it may be vulnerable. The owners may lack experience and there may be a shortage of resources. Therefore, an objective for a new business may be to survive in the first 12 months. The survival of a business might also be threatened when trading conditions become difficult. In 'Getting started' above, British Airways took a number of measures to ensure that the large airline survived the recession in 2009/10.
- **Profit:** Most businesses aim to make a profit because their owners want a financial return. Some businesses try to **maximise profit**. This means they make as much profit as they possibly can. For example, companies, which are owned by shareholders, may try to maximise profits. This is because shareholders often put pressure on companies to pay out large *dividends* (which come from profits).
- **Growth and wealth creation:** Some owners want their businesses to grow. This is because larger businesses enjoy a number of benefits. For example, they:
 - may enjoy lower costs
 - have a larger market share
 - enjoy a higher public profile
 - generate more wealth for the owners.

The growth of a business might also benefit a wide range of stakeholders linked with the business. For example, employees are likely to benefit from the growth of a business because their jobs will be more secure.
- **Increase market share:** Businesses often want to build a larger market share. They may be able to do this if they can win customers from competitors. Businesses with a large market share may be able to dominate the market. They may be able to charge higher prices for example.
- **Image, reputation and social responsibility:** In recent years many businesses have tried to improve their image and develop a good reputation. One way of doing this is to take into account the needs of others such as customers, the local community and employees. If a business has a bad image or a poor reputation it may lose customers.

Did you know?

Owners of many small businesses are happy to make a satisfactory level of profit – just enough to fund a comfortable lifestyle, perhaps.

QUESTION 1

Thomas Cook Group plc is one of the world's leading leisure travel groups. In 2008, it had sales of £8.8bn, 22.3m customers and 31,000 employees. It has 93 aircraft, 3,400 travel stores and interests in 86 hotels and holiday resorts. Thomas Cook is a leader in its core markets and has a clear strategy for the future, which is to...

'improve performance in mainstream tour operating, make significant advances in independent travel, travel-related financial services and emerging markets, and grow overall revenue and profit.'



Figure 2.3 A Thomas Cook travel shop

- (a) Describe two possible objectives of Thomas Cook.
- (b) Do you think Thomas Cook will be concerned about its image and reputation as an objective?

SMART objectives

The setting of business objectives may achieve more if they are SMART. This means that they should be:

- Specific – stating clearly what is trying to be achieved
- Measurable – capable of numeric measurement
- Achievable – attainable by the people involved
- Realistic – able to be achieved given the resources available
- Time specific – state a time by which they should be achieved.

An example of a SMART objective might be for a business to increase turnover by 8 per cent in the next 12 months.

Our mission

Unilever's mission is to add vitality to life. We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life.

Figure 2.4 Unilever mission statement

Mission statements

Some businesses write a **mission statement** when setting objectives. This describes the purpose of a business. Mission statements are often directed at stakeholders such as customers, employees and shareholders. They:

- help a business to focus
- provide a plan for the future
- make clear to all stakeholders what the business is trying to achieve.

Figure 2.4 shows the mission statement for Unilever, the 'soups to soaps' company.

Public sector objectives

The objectives of public sector organisations are likely to be different from those in the private sector. For example, schools, hospitals, government departments and council-run services are not likely to make a profit. Generally, public sector objectives are linked to quality of service and reducing costs. Examples of public sector objectives may include:

- Increasing special needs provision in schools.
- Increasing response time by the emergency services.
- Reducing specific crime rates.
- Reducing waste sent to landfill.
- Increasing the number of students entering higher education.

QUESTION 2

The National Health Service in the UK has hit its target to treat patients within a maximum of 18 weeks from referral by their doctor. It said the average wait for treatment for admitted patients is now 8.6 weeks. For example:

- Cataract removal waiting times have halved – from 20 weeks in March 2007 to 10 weeks in January 2009.
- Waiting times for a heart bypass have halved from 14 to seven weeks.
- Audiology referral to treatment times now stands at around five weeks.



Figure 2.5 A hospital ward

Source: adapted from <http://www.hsj.co.uk>

The Health Secretary at the time, Alan Johnson, said: 'Achieving the shortest waits since NHS records began is a tremendous achievement for staff and I congratulate them for all their hard work. Meeting the standard nationally five months before it came into effect, shows the commitment of the whole health service to improving patients' experiences.'

- (a) What objectives are set by public sector organisations?
(Use examples from this case.)

The National Health Service does not aim to make a profit like private sector health services.

- (b) Why is this the case?

Relationship between business objectives

Several of the business objectives described above are closely related to each other. For example, a business that aims to grow could make more profit in the future. This is because a larger firm will enjoy more revenue and this is likely to result in more profit. Similarly, a business aiming to grow is also likely to increase its market share. Also, if a business improves its image it may attract more customers and increase its market share.

Finally, a business may have more than one objective. For example, a business may try to grow and try to become a market leader. Also, long-term objectives may differ from short-term objectives. For example, in the early stages of the business start-up survival may be the main objective. But in the long term profit will become more important.

Key terms

Mission statement – a brief summary of a firm's aims and objectives.

Objectives – the goals or targets set by a business.

Profit maximisation – making as much profit as possible in a given time period.

Chapter review – Boston Pizza International

Boston Pizza International (BPI) operates a pizza franchise in Canada. It has over 300 restaurants and operates three of these as corporate restaurants. These serve as franchisee training centres and allow BPI to test new menu items and other policies. The following information about the company is given.

- BPI had sales of over \$830m in 2008.
- Sales growth has averaged 5.7 per cent for the last 10 years.
- Menus include health check options.
- The Boston Pizza Foundation has raised over \$9m for charities since 1990.
- It was named Franchisor of the Year by the Quebec Franchise Council in 2007.
- It was named No. 3 in Canada's 10 Most Admired Corporate Cultures.

our corporate mission statement

To be a world class franchisor through selecting and training people to profitably manage an outstanding foodservice business. To achieve this goal we are innovative and responsible in our approach to business. We work as a team providing attention to detail but never losing sight of the larger picture. We recognize the need to provide leadership in all areas of operations, marketing and restaurant development.

Figure 2.6 Boston Pizza mission statement



Figure 2.7 People eating Pizza

- (a) What is meant by a business objective? (Use this case as an example.) **(2 marks)**
- (b) Describe the purpose of a mission statement? **(4 marks)**
- It is suggested that BPI is concerned about its image and reputation.
- (c) What evidence is there in the case study to support this view? **(4 marks)**
- (d) Assess why it is important to a company like BPI to have objectives. **(10 marks)**