Business objectives

Activity 4.1 – research activity.

Activity 4.2 (page 62): Reuters achieving its aims

1. What evidence is there that Reuters is meeting its objectives? [4]

- The share price is rising 7% faster than the market average; this is meeting its aim to increase shareholder value.
- Sales growth targets are being exceeded. Sales increased by 6% in 2007.
- Profits are predicted to rise rapidly next year; this will further enhance shareholder value.
- Reuters is cutting costs whilst still achieving sales growth.

2. Explain two benefits to the managers and other employees of the company from having clearly stated company aims and objectives. [6]

Managers and employees will know what is expected of them. This will avoid confusion and may help to ensure that they are working towards the objectives that have been set. If all employees are pulling in the same direction, it is more likely that the business will achieve its objectives. Employees will better understand what the business is seeking to achieve.

Clear corporate aims and objectives will provide a basis for setting strategic departmental targets and even individual targets for managers and employees. These objectives provide a clear guide for management action. Management by objectives may be implemented to provide individual targets for all employees, which will contribute to achieving the overall objectives of the business.

3. To what extent does the policy of increasing shareholder value conflict with other objectives the business might have? [8]

Increasing shareholder value may conflict with other objectives the business might have, e.g.:

- A focus on shareholder value may mean that short-term profit is pursued at the expense of the longer-term growth of the business.
- Rather than re-investing profits, the business may pay higher dividends to shareholders. A firm that does not distribute profits to shareholders may face a declining share value.
- As a news agency, Reuters may have objectives related to corporate social responsibility, e.g. a commitment to reporting the truth. This may conflict with the objective of profit; this could arise in its activities in China and other
markets where the business may come into conflict with state authorities. As these markets are important to the growth of the business, Reuters may prefer to remain silent about controversial issues in those countries.

**Activity 4.3 (page 63): Is STS plc successful?**

1. **How useful is the company’s new mission statement?** [4]

   The mission statement is useful as it identifies what the company is seeking to achieve, so if communicated to employees, it will give a sense of direction for the business. However, staff were not involved in creating the mission statement, so they may not identify with it. Shareholders may accept the mission statement, as the aim to be the number-one waste business in the country suggests the creation of shareholder value.

   The mission statement may also serve a useful purpose as a public relations exercise due to its emphasis on protecting the environment.

2. **The company’s objectives do not appear to be completely SMART. Explain the problems that might result from this.** [6]

   The company accounts state an objective of expanding year on year; this does not fulfil the criteria of being SMART. Problems that may occur from objectives not being SMART are:
   - If the objective is not specific to the business, then it does not provide a clear direction for the business. There is, in effect, no clear goal for managers and employees to pursue.
   - If an objective is not measurable, it is difficult to identify whether the objective has been achieved.
   - If an objective is not achievable, then it will demotivate managers and employees. The business is certain to fail to meet the target, and, therefore, there is little point in setting the target.
   - If an objective is unrealistic given the resources of the business, then achieving the objective will consume too much of the business’s resources, causing it to face new problems.
   - If the objective is not time specific, it will be impossible to assess whether the objective has been achieved.

   In the case of STS plc, the stated objective is not sufficiently specific or time specific.

3. **Using the information provided, to what extent is the business achieving success? Explain your answer fully.** [10]

   Any reasonable answer using the data in the table or the text.
   - The company is dumping waste in landfill. This is contrary to their new mission statement.
   - Most waste is used to generate electricity and heat. This is described as reducing the impact on the environment and thus meets the new mission statement.
   - STS predicts a doubling of sales revenue between 2006 and 2009.
• STS plc expects to increase its market share from one-sixth in 2006 to two-ninths in 2009 (16.7% to 22.2%).
• Net profit is expected to increase from $3 million in 2006 to $20 million in 2009. This will almost be a seven-fold increase (567%). Increasing profit is meeting its aim to maximise returns to shareholders.

Activity 4.4 (page 67): Siam Cement Group (SCG)

1 Explain what you understand by the terms:

- business ethics
- code of conduct. [4]

Business ethics are the moral principles that guide decision making within a business. For example, is it right to purchase commodities, such as coffee, from producers that pay workers very low wages?

A code of conduct is an ethical code adopted by business that sets out the rules and guidelines on staff behaviour. For example, a code of conduct may require employees to inform consumers of the dangers of buying a particular product.

2 Explain how SCG and its employees might benefit from the clear statement of business ethics and the code of conduct. [8]

SCG might benefit in the following ways:
• More government contracts will be won in countries where bribery is considered unacceptable.
• An enhanced public reputation will be enjoyed.
• A higher quality of employee will be attracted as the code promotes fair treatment of staff. This will also lead to lower labour turnover. Thus, the recruitment costs of SCG will be reduced and a more committed workforce will be more productive.
• There will be the benefits of greater local community support as it will approve of the code’s commitment to society and the environment.
• Conflicts will be reduced between SCG and its stakeholders, such as employees, customers and suppliers.
• As the code promotes honesty and fairness, it will reduce the chances of being prosecuted for corrupt practices. Thus, SCG is less likely to face negative publicity and legal costs.
• The chances of being investigated for uncompetitive practices will be reduced.

Benefits to employees:
• Employees will not have to behave in a way they consider to be inappropriate. This will reduce the number of moral dilemmas employees face as they will feel more comfortable with what they are being told to do. For example, a business without an ethical code may expect employees to be dishonest to win contracts; many employees may be uncomfortable with that behaviour. SCG promotes an ethos of honesty.
• Other businesses will be less likely to offer bribes.
• There will be a better working atmosphere because the code states that staff should behave appropriately at all times towards others.
• The code promotes fair treatment of all staff.

3 Should a business such as SCG ever use unethical methods in a country where they are the 'norm', for example the giving and accepting of bribes? Justify your answer. [10]

Yes
• If SCG do not use unethical methods in countries where they are the norm, it will lose out to other companies. The loss of contracts will affect shareholders negatively as profits will be reduced. If a company decides to pay fair wages when others do not, then it will be placed at a cost disadvantage.
• SCG may lose an opportunity to influence corrupt governments and bring about change.
• The shareholder concept of business would suggest that any business decision that reduces costs and increases profit is acceptable as long as it is legal.

No
• As SCG has an ethical code, then it risks negative publicity if it uses unethical methods. Pressure groups/media will scrutinise the activities of businesses such as SCG and when they discover inconsistency in SCG’s application of the ethical code, this will be brought into the public domain. The negative publicity will harm SCG’s reputation and sales.
• Some governments and private-sector businesses will no longer make contracts with SCG.
• It may lead to expensive court cases and fines.
• Businesses that use unethical practices may find it more difficult to recruit and retain staff. Staff will be less committed to the goals of the business.
• Businesses have a responsibility to stakeholders other than shareholders.

Evaluation may consider:
• It may be possible to accommodate different methods of working without undermining the core underlying principles of an ethical code.
• It may be a question of the degree to which behaviour needs to be modified. Many issues are not black and white; it is not always possible to apply absolutes to complex issues.
• It depends whether a business has adopted an ethical code or not.

On the topic of ethical dilemmas:

Harvard Business School professor Lynn Paine urges managers to look beyond differences in practice to underlying principles. In many instances, this approach can help managers find a strategy that honors the company’s values and also works in a particular environment. ‘One firm that had built its reputation by being environmentally responsible ran into trouble when it expanded its business into India,’ she explains, ‘because people there were not willing to pay for the world-class technology necessary to maintain the stringent emission standards of the company’s US plants. After much debate around the choice of technology,’ she continues, ‘the company re-examined its
concerns about the environment and realised they originated in a broader commitment to social responsibility. Managers then began working with the local community to find meaningful ways — such as support for schools, health centers, sewage disposal, and forest preservation — to be socially responsible within that setting.


Revision case study 1 – answer provided on Student’s CD-ROM.

Revision case study 2 (page 70): Virgin Atlantic and British Airways to refund passengers

1 What benefits would these two airlines have gained if they had not been caught breaking the law? [4]

- Through a price-fixing agreement, Virgin and BA would have avoided price competition, which is potentially damaging to both firms. Competing on price will force prices downwards and thus reduce profits for both firms.
- The price-fixing agreement would enable both firms to pass on more of the increasing cost of fuel to consumers.

2 Discuss whether taking unethical decisions is ever likely to be profitable in the long run. [10]

It is useful to refer to the example of Virgin Airways and British Airways. However, other examples, such as Petrobras and the Co-op Bank, may be used to illustrate arguments.

<table>
<thead>
<tr>
<th>Benefits of unethical behaviour</th>
<th>Drawbacks of unethical behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There can be cost savings. Unethical practices will, in the short term, reduce business costs, e.g.:</td>
<td>• There is the potential for some forms of unethical behaviour to lead to prosecution and fines. For example, poor health and safety policies could lead to injury of employees and claims for compensation. Failure to ensure the safety of consumer products may also lead to legal action and negative publicity.</td>
</tr>
<tr>
<td>- paying low wages to workers</td>
<td>• Unethical behaviour, even when it does not break the law, can lead to negative publicity and loss of sales. Consider the impact of publicity on companies such as Gap.</td>
</tr>
<tr>
<td>- reducing expenditure on health and safety, e.g. Petrobras not training workers properly and failing to invest in necessary safety standards</td>
<td>• Unethical policies are likely to make recruitment and retention of skilled staff more difficult. This will add to the long-term costs of the business.</td>
</tr>
<tr>
<td>- sourcing products from companies that use child labour.</td>
<td></td>
</tr>
<tr>
<td>• Collusion to fix markets, e.g. Virgin and British Airways avoiding competition by fixing prices, can increase prices companies are able to charge to consumers and, therefore, increases profit.</td>
<td></td>
</tr>
<tr>
<td>• Sales can be increased through using bribery, e.g. British Aerospace has been accused of making illegal payments to win contracts with the Saudi government.</td>
<td></td>
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<tr>
<td>• Persuasive advertising can boost sales of toys to children.</td>
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</tbody>
</table>
Evaluation may consider

Evaluation is likely to focus on the question of the long-term impact of unethical behaviour in reducing consumer and employee loyalty. However, the effect will also depend on:

- Society’s attitude towards ethics – how important an issue is it? In many countries, it is an increasingly important consideration for consumers.
- The nature of the unethical behaviour – does it actually contravene the legal constraints within a country? Consequently, will it lead to legal action?

Consideration may also be given to whether there are sufficient ethical consumers within societies for it to really matter.

Essay

1a Explain what is meant by the SMART criteria for corporate objectives. [10]

<table>
<thead>
<tr>
<th>Term</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate objectives</td>
<td>These are the specific objectives that contribute to the achievement of an organisation’s long-term corporate aims.</td>
</tr>
<tr>
<td>S = Specific</td>
<td>These are objectives specific to the business so that everyone understands what the target is, e.g. a target to increase sales by 5%.</td>
</tr>
<tr>
<td>M = Measurable</td>
<td>If the objective is not measurable, then it is difficult to ascertain whether it has been achieved or not. Thus, targets should be quantitative, e.g. to increase market share to 10%.</td>
</tr>
<tr>
<td>A = Achievable</td>
<td>If an objective is impossible to achieve, it will be demotivating for employees as they know they cannot achieve the target, e.g. to double sales within the next year may be beyond the control of a business.</td>
</tr>
<tr>
<td>R = Realistic and relevant</td>
<td>This is realistic in relation to the business’s resources. A target may be achievable, but at what cost?</td>
</tr>
<tr>
<td>T = Timed</td>
<td>A time limit by which the target is to be achieved is necessary. A target to increase sales by 5% is not very useful unless it is time specific. A time limit aids measurement and tends to focus people.</td>
</tr>
</tbody>
</table>

b Discuss whether the owners of a farm with three managers for different departments and 12 workers should adopt a system of ‘management by objectives’. [15]

Definition of management by objectives (MBO): This is a management approach that relies on workers agreeing with managers what their objectives should be.

It is used to coordinate and motivate all staff in the organisation by dividing its overall aim into specific targets for each department, manager and employee.

Benefits:
- As successful MBO is based on setting objectives following discussion with personnel at each level of the organisation, it will motivate employees. It is a form of staff involvement and empowers workers. In the farm, owners would communicate
the farm’s corporate objectives to managers of the three departments and agree targets with those managers. The departmental managers would then need to agree targets with the 12 farm workers. The targets set would contribute to the achievement of the departmental objectives, which, in turn, would contribute to achieving the overall objectives of the farm. In this case, departmental objectives may relate to issues such as reducing the cost of fertilizers used, increasing crop yields and improving the quality of crops.

- Corporate objectives are at the centre of MBO and divisional, departmental and individual targets are aligned so as to achieve the corporate objectives. This ensures that everyone should be working toward the same overall target.
- Discussion ensures that all workers are aware of where the business is going and, through agreeing individual targets, highlights the importance of what a worker does in relation to the whole organisation. As targets are agreed, the farm workers are more likely to work towards achieving their targets.
- Objectives set will act as a control mechanism. Managers can monitor everyone’s performance and measure success or failure.

Problems:

- As full discussion of targets is necessary between managers and workers, MBO may be time consuming and, therefore, expensive. In the case of this business, as there are only three managers and 12 farm workers, there is likely to be interaction between workers and managers on a daily basis. All staff can easily meet and all employees are likely to understand the purpose of the farm and, therefore, MBO may appear unnecessary.
- Objectives can become outdated very quickly due to external change. External factors may have a significant impact on the operation of a farm, e.g.:
  - changes in the weather may affect crop yields
  - costs of inputs can change rapidly, e.g. oil-based products such as fertilizers
  - disease may affect crops.

Farm workers may have to work flexibly in response to changes in the external environment. MBO may slow down decision making within the organisation.
- Targets must be realistic and the necessary training provided to subordinates in order to achieve the targets set.

**Evaluation may consider**

Evaluation may question whether a small farm has much to gain from MBO. MBO may be more appropriate for larger businesses where there is a greater need to coordinate individual objectives to ensure that they meet the corporate objectives of the organisation. In a small business the fact that there is a good understanding of where the business is heading makes MBO a less worthwhile management approach and would waste the time of employees and managers.