

Introduction

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Subject: Business Objectives

When a sole trader sets up they may have some unstated aims or objectives - for example to survive for the first year. Other businesses may wish to state exactly what they are aiming to do, such as Amazon, the Internet CD and bookseller, who wants to “make history and have fun”.

An aim is where the business wants to go in the future, its goals. It is a statement of purpose, e.g. we want to grow the business into Europe.

Business objectives are the stated, measurable targets of how to achieve business aims. For instance, we want to achieve sales of €10 million in European markets in 2004.

A mission statement sets out the business vision and values that enables employees, managers, customers and even suppliers to understand the underlying basis for the actions of the business.

Business Objectives

Objectives give the business a **clearly defined target**. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards its stated aims.

The most effective business objectives meet the following criteria:

S – Specific – objectives are aimed at what the business does, e.g. a hotel might have an objective of filling 60% of its beds a night during October, an objective specific to that business.

M - Measurable – the business can put a value to the objective, e.g. €10,000 in sales in the next half year of trading.

A - Agreed by all those concerned in trying to achieve the objective.

R - Realistic – the objective should be challenging, but it should also be able to be achieved by the resources available.

T- Time specific – they have a time limit of when the objective should be achieved, e.g. by the end of the year.

The main objectives that a business might have are:

Survival – a short term objective, probably for small business just starting out, or when a new firm enters the market or at a time of crisis.

Profit maximisation – try to make the most profit possible – most like to be the aim of the owners and shareholders.

Profit satisficing – try to make enough profit to keep the owners comfortable – probably the aim of smaller businesses whose owners do not want to work longer hours.

Sales growth – where the business tries to make as many sales as possible. This may be because the managers believe that the survival of the business depends on being large. Large businesses can also benefit from economies of scale.

A business may find that some of their objectives conflict with one and other:

Growth versus profit: for example, achieving higher sales in the short term (e.g. by cutting prices) will reduce short-term profit.

Short-term versus long-term: for example, a business may decide to accept lower cash flows in the short-term whilst it invests heavily in new products or plant and equipment.

Large investors in the Stock Exchange are often accused of looking too much at short-term objectives and company performance rather than investing in a business for the long-term.

Alternative Aims and Objectives

Not all businesses seek profit or growth. Some organisations have alternative objectives.

Examples of other objectives:

Ethical and socially responsible objectives – organisations like the Co-op or the Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate.

Public sector corporations are run to not only generate a profit but provide a service to the public. This service will need to meet the needs of the less well off in society or help improve the ability of the economy to function: e.g. cheap and accessible transport service.

Public sector organisations that monitor or control private sector activities have objectives that are to ensure that the business they are monitoring comply with the laws laid down.

Health care and education establishments – their objectives are to provide a service – most private schools for instance have charitable status. Their aim is the enhancement of their pupils through education.

Charities and voluntary organisations – their aims and objectives are led by the beliefs they stand for.

Changing Objectives

A business may change its objectives over time due to the following reasons:

A business may achieve an objective and will need to move onto another one (e.g. survival in the first year may lead to an objective of increasing profit in the second year).

The competitive environment might change, with the launch of new products from competitors.

Technology might change product designs, so sales and production targets might need to change.

EXAMPLES of Business objectives

- To break even (cover costs)
- To have high motivation amongst employees
- To grow in size (e.g. sales, number of customers, number of employees)
- To diversify and sell different products

Businesses need to apply the SMART objectives if they wish to become successful