Understanding Business Activity
Business objectives and stakeholder objective
Grade 8
Worksheet no.1 2024 / 2025 Term 1

An **objective** is an aim or a target that a business works towards.

The benefits of setting business objectives:

- They give workers and managers a clear target to work towards and this helps motivate people.
- Taking decisions will be focused on: 'Will it help achieve our objectives?'
- Clear and measurable objectives help unite the whole business towards the same goal.
- Business managers can compare how the business has performed with their objectives – to see if they have been successful or not.

What objectives do businesses set?

The most common objectives for businesses in the private sector are to achieve:

1. **Survival**

- When a business has recently been set up, or when the economy is moving into recession, the objectives of the business will be more concerned with survival than anything else.
- New competitors can also make a firm feel less secure. The managers of a business threatened in this way could decide to lower prices in order to survive, even though this would lower the profit on each item sold.

2. **Profit**

- **Profit:** is total income of a business (sales revenue) less total costs.
- When a business is owned by private individuals rather than the government it is usually the case that the business is operated with the aim of making a **profit**. The owners will each take a share of these profits.
- Profits are needed to:
  - **Pay a return** to the owners of the business for the capital invested and the risk taken
  - **Provide finance** for further investment in the business.
- Without any profit at all, the owners are likely to close the business.
- Suppose a firm put up its prices to raise profits. It may find that consumers stop buying their goods. Other people will be encouraged to set up in competition, which will reduce profits in the long term for the original business.

3. **Returns to shareholders**

- Shareholders own limited companies.
- The managers of companies will often set the objective of 'increasing returns to shareholders', so to discourage shareholders from selling their shares.
- Returns to shareholders are increased in two ways:
- **Increasing profit** and the share of profit paid to shareholders as dividends.
- **Increasing share price** – managers can try to achieve this not just by making profits but by putting plans in place that give the business a good chance of growth and higher profits in future.

4. **Growth**

- The owners and managers of a business may aim for growth in the size of the business – for number of reasons:
  - To make jobs more secure if the business is larger.
  - To increase the salaries and status of managers as the business expands.
  - To open up new possibilities and help to spread the risks of the business by moving into new products and new markets
  - To obtain a higher market share from growth in sales.
  - To obtain cost advantages, called economies of scale, from business expansion.
- Growth will only be achieved if the business's customers are satisfied with the products or services being provided.

5. **Market share:**

- **Market share** is the proportion of total market sales achieved by one business.
- If the total value of sales in a market is $100 million in one year and Company A sold $20 million, then Company A's market share is 20%.

- Increased market share gives a business:
  - Good publicity, as they could claim that they are becoming 'the most popular'.
  - Increased influence over suppliers, as they will be very keen to sell to a business that is becoming relatively larger than others in the industry.
  - Increased influence over customers (for example, in setting prices).

6. **Providing a service to society:**

- **A social enterprise** has social objectives as well as an aim to make a profit to reinvest back into the business. They are operated by private individuals- they are in the private sector- but they do not just have profit as an objective.
- The people operating the social enterprise often set three objectives for their business:
  - **Social:** to provide jobs and support for disadvantaged groups in society, such as the disabled or homeless.
  - **Environmental:** to protect the environment.
  - **Financial:** to make a profit to invest back into the social enterprise to expand the social work that it performs.

Why business objectives could change?

It is most unusual for a business to have the same objective forever!

Here are some examples of situations in which a business might change its objective.

1. A business set up recently has survived for three years and the owner now aims to work towards higher profit.
2. A business has achieved higher market share and now has the objective of earning higher returns for shareholders.
3. A profit-making business operates in a country facing a serious economic recession so now has the short-term objective of survival.

Objectives of public-sector businesses

- **Financial**: Meet profit targets set by government- sometimes the profit is reinvested back in the business and on other occasions it is handed over to the government as the 'owner' of the organisation.
- **Service**: Provide a service to the public and meet quality targets set by government.
- **Social**: Protect or create employment in certain areas - especially poor regions with few other business employers.

Which stakeholder groups are involved in business activity?

A stakeholder is any person or group with a direct interest in the performance and activities of a business. The following groups of people are involved in business activity in one way or another, or are affected by it:

- Owners
- Workers
- Managers
- The whole community.
- Consumers
- Government
- Banks

Some of these groups are internal to the business - they work for it or own it.
Others are external - they are groups outside of the business.
Why are these groups of people important to business? How are tl1ey affected by business activity?

Conflict of stakeholders' objectives:

In practice, these stakeholder objectives could conflict with each other. For example:

- It could be that a cheap method of production increases profits but causes more pollution.
- A decision to expand the plant could lead to a dirtier, noisier local environment.
- A decision to introduce new machines could reduce the jobs at the refinery but lead to higher profits.
- Expansion could be expensive, reducing payments to owners, and this could reduce short-term profits.