

FOR THE  
IB DIPLOMA  
PROGRAMME



# Business Management

Malcolm Surridge  
Andrew Gillespie  
Ian Mills



 **HODDER**  
EDUCATION  
AN HACHETTE UK COMPANY

**Dedication**

Dedication text **T/K**

**Author acknowledgements**

The authors would like to thank Ian Mills for offering feedback and advice. The authors would also like to thank So-Shan Au for her support and advice and for organizing the writing process so competently.

**IB advisors:**

The Publishers would like to thank the following for permission to reproduce copyright material.

**Photo credits****Acknowledgements**

Every effort has been made to trace all copyright holders, but if any have been inadvertently overlooked, the Publishers will be pleased to make the necessary arrangements at the first opportunity.

Although every effort has been made to ensure that website addresses are correct at time of going to press, Hodder Education cannot be held responsible for the content of any website mentioned in this book. It is sometimes possible to find a relocated web page by typing in the address of the home page for a website in the URL window of your browser.

Hachette UK's policy is to use papers that are natural, renewable and recyclable products and made from wood grown in well-managed forests and other controlled sources. The logging and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

Orders: please contact Hachette UK Distribution, Hely Hutchinson Centre, Milton Road, Didcot, Oxfordshire, OX11 7HH. Telephone: +44 (0)1235 827827. Email [education@hachette.co.uk](mailto:education@hachette.co.uk) Lines are open from 9 a.m. to 5 p.m., Monday to Friday. You can also order through our website: [www.hoddereducation.com](http://www.hoddereducation.com)

ISBN: 9781398350977

© Malcolm Surridge and Andrew Gillespie 2022

First published in 2022 by  
Hodder Education,  
An Hachette UK Company  
Carmelite House  
50 Victoria Embankment  
London EC4Y 0DZ

[www.hoddereducation.com](http://www.hoddereducation.com)

Impression number 10 9 8 7 6 5 4 3 2 1

Year 2026 2025 2024 2023 2022

All rights reserved. Apart from any use permitted under UK copyright law, no part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or held within any information storage and retrieval system, without permission in writing from the publisher or under licence from the Copyright Licensing Agency Limited. Further details of such licences (for reprographic reproduction) may be obtained from the Copyright Licensing Agency Limited, [www.cla.co.uk](http://www.cla.co.uk)

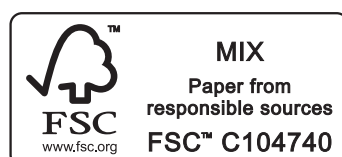
Cover photo

Illustrations by

Typeset in ITC Berkley Oldstyle 10/14pts by Aptara Inc.

Printed in

A catalogue record for this title is available from the British Library.



# Contents

How to use this book ..... v

The business management toolkit.....2



## Unit 1: Introduction to business management .. 57

- 1.1** What is a business?.....58
- 1.2** Types of business entities ..... 71
- 1.3** Business objectives .....84
- 1.4** Stakeholders.....97
- 1.5** Growth and evolution..... 107
- 1.6** Multinational companies (MNCs)..... 121



## Unit 2: Human resource management ..... 126

- 2.1** Introduction to human resource management..... 127
- 2.2** Organizational structure ..... 141
- 2.3** Leadership and management ..... 160
- 2.4** Motivation and demotivation ..... 175
- 2.5** Organizational (corporate) culture (HL only) ..... 211
- 2.6** Communication ..... 224
- 2.7** Industrial/employee relations (HL only)..... 240



## Unit 3: Finance and accounts ..... 252

- 3.1** Introduction to finance ..... 253
- 3.2** Sources of finance ..... 256
- 3.3** Costs and revenues ..... 272
- 3.4** Final accounts ..... 280
- 3.5** Profitability and liquidity ratio analysis ..... 305
- 3.6** Debt/Equity ratio analysis (HL only) ..... 319
- 3.7** Cash flow ..... 328
- 3.8** Investment appraisal ..... 345
- 3.9** Budgets (HL only) ..... 359



**Unit 4: Marketing** .....000

- 4.1** Introduction to marketing .....000
- 4.2** Marketing planning .....000
- 4.3** Sales forecasting (HL only) .....000
- 4.4** Market research .....000
- 4.5** The seven Ps of the marketing mix .....000
- 4.6** International marketing (HL only) .....000



**Unit 5: Operations management**.....000

- 5.1** Introduction to operations management .....000
- 5.2** Operations methods .....000
- 5.3** Lean production and quality management (HL only) .....000
- 5.4** Location .....000
- 5.5** Break-even analysis .....000
- 5.6** Production planning (HL only) .....000
- 5.7** Crisis management and contingency planning (HL only) .....000
- 5.8** Research and Development (HL only) .....000
- 5.9** Management information systems (HL only) .....000

**Acknowledgements** .....000

**Glossary**.....000

**Index**.....000

## 1.1

## What is a business?

## Conceptual understandings

- **Change** is essential for businesses to achieve their desired aims. For example, as customer buying patterns change businesses will modify their products.
- **Ethical** business behaviour improves a business' image as well as customer loyalty. For example, some shoppers will be conscious of the environmental impact of the products they buy.
- **Creative** business planning can lead to organizational success. For example, new products can lead to high sales.
- **Sustainable** business practices can enhance a business' existence. For example, being sustainable can reduce costs.

## SYLLABUS CONTENT

By the end of this chapter you should understand:

- ▶ the nature of business (AO1)
- ▶ the difference between the primary, secondary, tertiary and quaternary sectors (AO2)
- ▶ the challenges and opportunities for starting up a business (AO2).

## The nature of business (AO1)

What will you do this weekend? Have you got a part-time job to earn some money? Are you going to go out to a cafe or go shopping in the town centre? Whatever you do, you will come into contact with many different businesses, either as a consumer buying and using their goods or services or as an employee working to create them. Businesses are everywhere! Just think of the last time you went shopping – the outlet where you shop or the website where you made your order is a business; it has bought the products from a supplier, they were transported by a delivery business and the firm probably uses another business to help promote itself. In every transaction between a customer and a business, many other businesses will have been involved to bring about that exchange.

There are many different definitions of a business, but what they tend to have in common is the idea of someone (or a group of people) working in an organized way to achieve a given target. Notice the key elements of this definition – firstly, the activities of those involved are organized in some way – they are coordinated – and, secondly, the business is created with a specific purpose in mind: often the business objective is profit but, as we shall see later, there are many other reasons why people set up in business. Using a definition of organized activities and a given target, many organizations such as hospitals and even schools could be classified as businesses. They may not have profit as a target, but they do involve many different people working together, planning and organizing what they do in order to achieve targets, such as helping people get better more quickly or improving the quality of students' education.

## ■ Business as a transformation process

All businesses are involved in the **transformation process**. They take inputs and transform them in some way to produce outputs that they hope consumers will want and be of value to them. Ideally consumers will value the products so much that they will pay a price that makes the business worthwhile whilst also feeling they have experienced good value for money. Think of something

◆ The **transformation process** in a business involves converting inputs into outputs.

[Insert AW 01\_01a]  
[Insert AW 01\_01b]  
[Insert AW 01\_01c]

■ **Figure 1.1.1** Different types of businesses

you bought recently which you thought was well worth the price paid; if the amount you spent enables the business to generate a good financial return this means you have both gained from this transaction. This would mean it was a mutually beneficial process as both parties in the transaction (the firm and the customer) have gained.

### Inputs

The inputs into a business are also called the **factors of production**. These are:

- land
- labour
- capital
- enterprise.

### Land

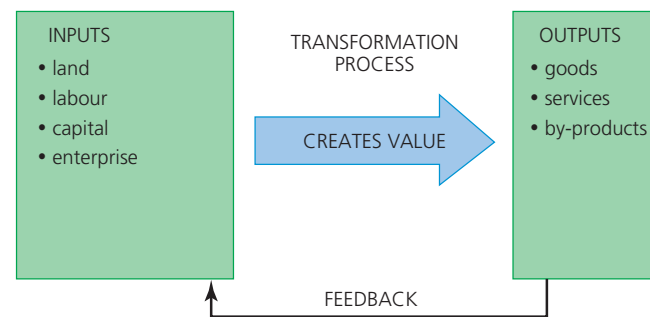
The term 'land' refers to natural resources. These natural resources include oil, gold, fish, water and minerals as well as the physical land itself. The nature of land as a factor of production can be critically important to business success. For some businesses such as farming, what will matter is the quantity and quality of the land in terms of the ability to grow different crops or rear livestock. The success of a farming business will be directly affected by changes to the quality of the land and the weather. For some businesses, what will matter is access to the resources in the land; for example, oil drilling and mining businesses need to be near the natural resources.

However, it is not just what is in the land that can be important – the actual amount of space available can be as well. The quantity of land available to a business can affect how much can be produced or how many customers can physically fit in the restaurant or store.

The nature of the premises and how the land is developed can also affect the working environment and people's motivation. For example, working in a modern office with a good canteen, parking spaces and a central location might be appealing to employees.

### Labour

Organizations will need labour as an input. The quantity and quality of the labour input will affect the value of this resource as a factor of production. The quantity will determine the number of people available to work and produce. However, the quality of employees in terms of their skills, their attitudes (for example, to customers), their willingness to work and their abilities will also have an influence on the success of any business. For example, what makes a film a great



■ **Figure 1.1.2** The transformation process

◆ The **factors of production** are the inputs into the transformation process of a business; namely land, labour, capital and enterprise.

success? The quality of the writing, the acting and the production – people play a key role in the success of any film. Many films, therefore, are promoted on the basis of who the actors are or who the director is. Similarly, universities promote their professors. Music labels promote their bands. Publishers promote their author list. The success of a football team relies heavily on its players. People can, therefore, be a crucial element of the transformation process.

## Capital

The word ‘capital’ has different meanings. In this instance, we mean non-natural resources used in production by a business such as equipment, vehicles, buildings and tools. The coffee machines in the coffee shop, the ovens in the fast-food restaurants and the scanning equipment in grocery stores are all examples of capital equipment. The amount and quality of the capital equipment in a business can affect the service it provides. For example, the online retailer Amazon is admired for the efficiency with which it processes an order and is able to make suggestions to customers of what else they might like to buy. These rely on the quality of Amazon’s warehousing facilities and computer programmes.

## Enterprise

Enterprise refers to a set of skills that develops new ways of doing things or new things to do. Enterprise refers to the ability to be creative and innovative, to come up with new ideas, to combine resources in different ways and to be willing to take risks. Enterprise brings together the other factors of production to create and make a business idea competitive. The enterprise skills of people such as Jack Ma (who founded Alibaba) and Elon Musk (who founded Tesla) can create hugely successful new businesses that change the world we live in.

## The choice of inputs

The choice of inputs into a business and who supplies them can affect:

- the costs of a business
- the quality of the final product (and therefore sales).

For example, if you employ well trained, experienced sales staff your costs will be higher than employing less skilled staff, but your customers may receive better service and your sales may be higher. If you grow your coffee beans on the best land with the best climate the taste of the coffee may be so good that you can justify a high price; if your land is second best, the coffee beans might be as well!

Choosing the right inputs has become especially important in recent years as customers have become increasingly interested in what resources are used in a production process and where these resources have come from. Businesses are increasingly being asked to or are choosing to give more information about their inputs. For example, firms may highlight the fact that they use recycled materials, that their supplies come from local businesses or that their ingredients are ‘natural’ or ‘organic’ because of the growing customer interest in these issues.

Firms will also face the choice of whether to buy in some materials or produce them themselves. For example, Tyrrells uses the fact that it grows its own potatoes when it promotes its potato crisp products. Most other crisp manufacturers buy in their potatoes from farmers. The fashion company, Zara produces a lot of the materials it then uses in its clothes whereas many other manufacturers buy in the fabric. IKEA designs and produces its own products rather than buy them from external suppliers. There is a choice therefore of the extent to which a business wants to be responsible for producing its own inputs.

## Outputs

The output of a business is a product. A product may be a good or a service or a combination of the two.

## Common mistake

Students often put ‘profit’ as a resource of a business. Profit is, hopefully, the outcome of using the resources to provide products customers are willing to pay a price for that covers the costs of the business. It is an outcome not a resource.

- A good is a tangible physical item, such as a car or a laptop computer. Businesses can produce and stock them. This means that they can produce or purchase the goods that they sell in advance of demand; for example, a store may stockpile new electrical goods before a busy selling period.
- A service is intangible. Examples of services are education, a music performance, a haircut and physiotherapy. Most businesses in more developed economies are in the service sector. Services cannot be stored; they have to be produced for customers as they are needed. This can create problems, because if there is a rush of customers, there are no products stockpiled and so queues form or waiting lists have to be introduced.

In many cases, a business provides a combination of goods and services. For example, you may choose a restaurant because of the food you can eat there (the goods) but also because of the waiters, the environment and the way you are treated (the service). The restaurant provides goods and a service and the combination of the two determines customers' perception of it.

Most outputs are intended for sale. A firm produces goods and services to sell to customers. The nature of the transformation process determines how much customers value the products produced.

However, as well as the goods and services that a business produces, there may also be by-products from the transformation process; for example, a firm's production may create waste and pollution. Many customers pay attention to these issues and, increasingly, firms are considering the effects of their production on other groups, such as the local community. Some by-products may also form the inputs to other industries. Mangos, for example, are a very popular fruit and are demanded all over the world. Millions of tons of mangoes are processed and turned into canned fruit, frozen juices or concentrates each year in countries such as India, China, Mexico, Indonesia and Malaysia. This generates by-products such as peels and seeds; approximately 60 per cent of the weight of a mango is discarded when processing it. Businesses are increasingly looking for ways these by-products can be used in other foods stuffs or health care products.

### CASE STUDY Dabbawalla



■ **Figure 1.1.3** A busy dabbawalla delivery in Mumbai

Every day in Mumbai, India, around 250,000 people get their lunches delivered by 'dabbawallas'. A 'walla' means a 'doer of something' and a 'dabba' is a stainless-steel lunchbox. The lunch is picked up from the person's home and taken to a sorting station. The lunch boxes are then divided up according to destination and delivered on bike, foot or taken on the train to their

destination. After lunch, the box is collected and taken back to the person's home. This is an incredibly efficient but a very labour-intensive and low-technology process, with almost no boxes going missing or to the wrong address. The price is so low that it is easier to pay for the delivery than to take your lunchbox with you on your journey to and from work.

### Questions

- 1 Define the term *factors of production*. [2]
- 2 Identify **two** factors of production in the dabbawalla delivery process. [2]
- 3 Analyse why the dabbawalla delivery business might be a mutually beneficial process for the business and customers. [6]
- 4 Discuss how you would measure the success of this transformation process. [10]



## CASE STUDY

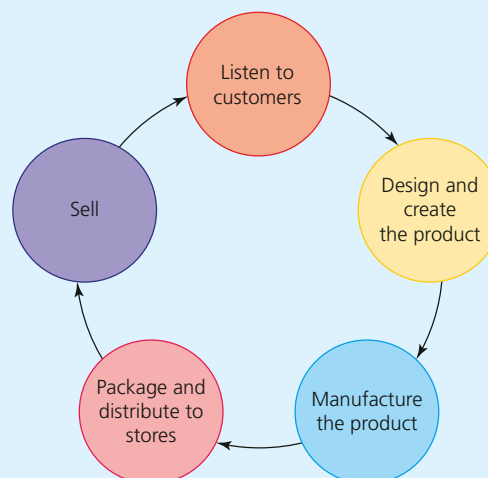
### IKEA

IKEA is a furniture producer and retailer. The value chain of a product describes all the stages of operations, from the initial raw materials through to the sale of the actual goods. In IKEA's case, it owns and manages nearly all the stages of its value chain. IKEA says that the starting point for any value chain is the product itself, and the idea for this starts with understanding people's needs, so that the business discovers how it can make a difference.

Typically, IKEA turns an initial idea based on customers' needs into a sketch of how the product might look. This sketch is then discussed with its suppliers who consider how it might be made and transported and stored in-store. IKEA will be looking for ways of producing a product with a high-quality design and finish whilst keeping costs low. This discussion with those who would be involved in the actual production of the product often results in changes.

IKEA says that it is always trying to improve the product at each stage of discussion and review.

Much of IKEA's furniture is produced and packaged in the form of a flat-pack. Flat-packs keep transport costs down because it is easy to put large quantities on lorries and on shelves in-store; this helps keep prices low for IKEA's customers. The flat-pack approach means people take products home themselves and assemble them there. This again keeps prices low as customers are actually building the products themselves. By working together



■ Figure 1.1.5 The value chain of a product

with customers, partners and co-workers, IKEA believes it can continue to add value to people's everyday lives by producing good-quality furniture at low prices.

Source: Adapted from [about.ikea.com](https://about.ikea.com)

### Questions

- 1 Define the term *adding value*. [2]
- 2 Explain **one** advantage and **one** disadvantage of IKEA owning and managing most of the stages of the value chain. [6]
- 3 Evaluate the importance of the customer in IKEA's value chain. [10]

## Primary, secondary, tertiary and quaternary sectors (AO2)

The many businesses that exist in an economy operate in one of four sectors.

### Primary sector

The primary sector refers to the first stage of production and involves acquiring or extracting raw materials. For example, oil has to be extracted from under the ground, coal has to be mined, fish have to be caught and crops have to be grown. Oil exploration, mining, fishing and agriculture are all in the primary sector of the economy.

Raw materials may be renewable resources, such as fish and wind power; this means they can be replenished. However, raw materials may be non-renewable, such as oil and coal; this means the total stock of these resources that is available is reduced when they are consumed. There has been increasing focus on the use of non-renewable resources in recent years with businesses looking for ways they can make production more sustainable.

## ■ Secondary sector

The secondary sector refers to the part of the economy that manufactures and assembles products using raw materials. For example, cars are manufactured using many different parts and materials and so car manufacturing is part of the secondary sector. Similarly, the construction industry uses many parts to produce houses and office space and it also is in the secondary sector.

## ■ Tertiary sector

The tertiary sector refers to businesses that provide services. These outputs are intangible – that is, the service they provide cannot be physically touched (unlike manufactured goods, for example). Examples of businesses in the tertiary sector include retailers, transportation businesses and providers of financial services, such as insurance. The tertiary sector is often the biggest sector in developed economies in terms of both employment and the value of the output.

## ■ Quaternary sector

The quaternary sector is a subset of the tertiary sector. This sector represents organizations that are based on knowledge and the skills of employees and that provide information; for example, information service businesses, such as management consultancies, and research and development businesses.

The more developed an economy is, the more resources are likely to have moved into the tertiary and quaternary sectors. Economies typically begin by being very agriculturally based (primary sector). Investment in capital equipment leads to more factories and equipment and the development of the secondary sector. As investment continues, resources tend to move away from the mass-production processes towards higher value-adding sectors based on services and knowledge (the tertiary and quaternary sectors). For example, developed economies may focus on sectors such as design, programming, creative work and research and development more than secondary sector production.

### Concept

- **Change** is an important part of the development of an economy. The relative importance of the sectors of an economy will often change over time. Typically, economies will move from the primary sector into the secondary, then the tertiary and then quaternary sectors as they grow and as the income and wealth of the country and its citizens increase.
- **Sustainable** production focuses on finding ways of using less resources, of recycling, of re-using materials and of replacing resources used up. Increasing concerns over the impact of business on the environment has made sustainability a key issue for many organizations.

### EXAM PRACTICE 1.1.1

- 1 Define the term tertiary sector. [2]
- 2 Compare and contrast two sectors of the economy. [6]

Businesses make up a vitally important part of any economy. Businesses are important because they employ people, they pay employees' wages and salaries and they provide goods and services. Businesses provide the products we buy and give us the jobs and earnings we need to buy them. When businesses are doing well and expanding they employ more people and generate more income for the economy. Businesses innovate to win more customers: they create new goods and services and this can improve the quality of our lives, by providing better food, better clothes and better electronic goods. Businesses therefore drive economies forward, and this is why governments are eager to help new firms start up and compete, and why they often try to help businesses grow. At the same time business success is linked to the level of economic activity around it. In a growing economy, demand for most products will be growing creating more demand for many businesses. It is more difficult to set up, survive or grow if the economy is doing badly and demand is low.

## ■ Choice and opportunity cost

In any economy there is a fixed amount of resources at any moment and therefore decisions have to be made about how these resources are used. Given the scarcity of resources, choices are inevitable in terms of what should be produced in the economy, how these products should be produced and who should receive them. Some of these decisions will be made by **market forces** of supply and demand: it will be the result of bargaining between consumers and businesses. If, for example, demand for a particular product increases, this will encourage businesses to use their resources to produce this instead of something else. Imagine you were a farmer and had limited land. You have to decide what to grow on it. This will depend in part on demand: if the demand for a particular crop increases, you may switch to this and away from something less in demand.

Some decisions about what to produce and how to produce may be made by the government. For example, a government may provide some or all of the health services, the transport system, the police or the education system in a country. Governments tend to take control of goods and services they think are vital to their economy and where they want to ensure access for most people.

However, whenever decisions are made about what to produce – whether it be the free market or the government – it will involve an **opportunity cost**. Given that resources are limited, if they are used to produce more of one item, then this is at the expense of something else. Opportunity cost measures the sacrifice you make if you choose one course of action in terms of the next best alternative. For example, if a business decides to use its labour force to increase output of soft drinks, then the opportunity cost is what could have been produced if the labour force had been used to produce something different. Whenever a business makes a decision, it should consider the opportunity cost. A project that earns a profit of \$100,000 may seem attractive, but if the resources could have been used to earn \$250,000 it is not so appealing.

When judging the success of a business you should also consider the opportunity cost. If Walmart, the huge US retailer, made a profit of \$10 million, this would not be that impressive given the people, stores and equipment it has; these resources could be used elsewhere to earn more than that. Walmart's profit before tax in 2020 was actually over \$20 billion.

◆ **Market forces** are the forces of supply and demand which determine the price of a product and the quantity bought and sold in a market.

◆ The **opportunity cost** measures the sacrifice made by choosing one option in terms of the next best alternative.

### Concept

Decisions over what to produce and how to produce it will involve **ethical** issues. A business may have the opportunity to produce more cheaply in a region with little health and safety protection for the workforce but decide this is not right. The production and sale of tobacco may be profitable, but again a business may decide that it does not think it is ethically right to produce this product because of its impact on peoples' health.

## EXAM PRACTICE 1.1.2

- 1 Define the term *primary sector*. [2]
- 2 Explain **one** opportunity cost for a business opening up a new store abroad. [2]
- 3 Explain **one** way that the level of economic activity might affect the success of a business. [2]

### ■ The dynamic business environment

Businesses do not operate in isolation. Whatever they do is linked to what other businesses do; for example, their suppliers, the firms that distribute and promote their products, the banks that lend them money. They are also affected by many other external factors, as shown in Table 1.1.1.

■ **Table 1.1.1** STEEPLE analysis

External factors	Example
Social issues	An increase in the size of the population or the average age of the population in a country can affect the level of demand and the types of products people buy.
Technological issues	A change in the availability and speed of the internet can make it easier to find suppliers and sell across the world.
Economic issues	The amount of income in an economy can change over a period of time, affecting demand; the value of one currency in terms of another can alter, affecting the cost of importing supplies; and the cost of borrowing can go up, increasing costs.
Environmental factors	Growing concerns about emission levels and the sustainability of production may affect how a business produces and what resources it uses.
Political factors	A government may sign a trade agreement which makes it easier for businesses to sell their products abroad.
Legal factors	New laws by a government can prevent the way some products are promoted (such as cigarettes) and can affect the way employees must be treated and the way a business produces (perhaps to reduce its environmental impact).
Ethical factors	Consumers are increasingly concerned about how businesses behave and whether they do the 'right' thing. For example, a business may decide not to use a certain supplier because of the poor working conditions it provides for its employees.

These external factors (known as STEEPLE – social, technological, economic, environmental, political, legal and ethical) will continually be changing and this will affect what businesses produce and the resources they use. These factors all can have an impact on a business, as shown in Figure 1.1.6. STEEPLE is simply a way of categorising the factors in the external environment and organizing these under different headings. This can be done in other ways – for example, some business writers refer to PEST (Political, Economic, Social and Technological) or PESTEL (Political, Economic, Social, Technological, Environmental and Legal).

### Business toolkit

#### STEEPLE analysis

The external environment can affect all aspects of a business including what it wants to produce, how much to produce, where to produce and sell and what resources to use. This is why STEEPLE analysis is so important for businesses.

# 1.3

## Business objectives

### Conceptual understandings

- **Change** is essential for businesses to achieve their desired aims. For example, it may be appropriate to set more environmental objectives these days.
- **Creative** business planning can lead to organizational success. For example, a clear vision may inspire people to achieve things that were not thought possible just a few years ago; think of commercial space flights.
- **Ethical** business behaviour improves a business' image as well as customer loyalty. For example, a decision to contribute some of the business profits to charities may be well received by customers.
- **Sustainable** business practices can enhance a business' existence. For example, finding ways of people sharing resources can create new markets such as ride hailing apps.

### SYLLABUS CONTENT

By the end of this chapter you should understand:

- ▶ the meaning of a mission and vision statement (AO2)
- ▶ common business objectives such as growth, profit, protecting shareholder value and ethical objectives (AO2)
- ▶ the meaning of strategic and tactical objectives (AO3)
- ▶ the meaning and significance of corporate social responsibility (CSR) (AO3).

## Vision statement and mission statement (AO2)

A **mission statement** defines the fundamental reason why a business exists. For example, an airline may exist to be the 'best airline in the world'; a computer manufacturer may aim 'to help people work more effectively', and a cosmetics business may intend 'to bring beauty to everyone'. A mission statement sets out what the business is; it often includes a reference to who its customers are and the way it does business. By comparison, a **vision statement** states what a business wants to be in the future. It sets out the hopes and ambitions of the business.

The mission and vision of a business are determined by the owners and senior managers; however, they are often produced in consultation with employees so they are documents that people within the organization identify with. These statements are typically rather broad but, nevertheless, can be useful to influence the long-term planning of a business and help with decision making. The mission and vision may be motivational and help employees to identify with what the business is and where it is heading.

Externally the mission and vision let stakeholders, such as suppliers, know more about the business and what it is aiming to be. They can also be used in promotional materials.

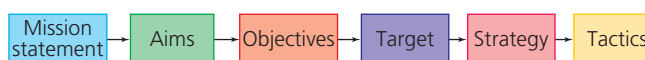
Not every business will have a mission or a vision statement; some have both but some have neither or just one or a combination of the two.

◆ A **mission statement** sets out the overall purpose of a business.

◆ A **vision statement** sets out what the business wants to be in the future.

Given that mission and vision statements are usually rather general statements it is not easy to measure whether or not they have been achieved. What exactly does a business measure to decide if it is the best airline? It could be the number of planes it operates or the number of passengers or perhaps the level of customer satisfaction. This is why corporate objectives exist, to turn the mission and aims into more measurable, specific and time-related targets.

Once these targets have been set, a business has to decide how to achieve them most effectively. The long-term plan to achieve an objective is known as a **strategy**. For example, if a business wanted to increase profits by 30 per cent in three years, the strategy might be to target overseas markets. However, this strategy has to be put into action; in this example, a decision has to be taken on which countries will be targeted. However, other decisions have to be made too: in what order will the new countries be entered? What products will be offered in each? The shorter-term action plans that combine to make up the strategy are known as **tactics**.



■ **Figure 1.3.1** From mission to tactics

◆ A **strategy** is a long-term plan to achieve the objective of a business.

◆ **Tactics** are the short-term actions needed to implement a strategy.

## Common business objectives (AO2)

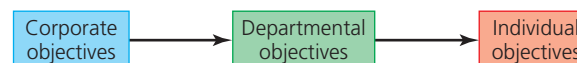
An **objective** is a target. To be effective, objectives should be SMART (see Table 1.3.1). SMART objectives must be:

■ **Table 1.3.1** SMART objectives

Feature of a SMART objective	Explanation
<b>Specific</b>	The objective must define exactly what the firm is measuring, such as sales or profits.
<b>Measurable</b>	The objective must include a quantifiable target; for example, a 10 per cent increase.
<b>Agreed</b>	If an objective is simply imposed on people, they are likely to resent it. If, however, an objective is discussed and mutually agreed upon, people are more likely to be committed to it.
<b>Realistic</b>	If an objective is unrealistic (for example, it is too ambitious), people may not even bother to try and achieve it. To motivate people, the targets must be seen as attainable.
<b>Time-specific</b>	Employees need to know how long they have to achieve the objective; for example, is it two or three years?

An example of a good objective might be 'to increase profits by 25 per cent over the next four years'. By comparison, a bad objective would be 'to do much better' – it is not clear what 'doing better' actually means, how it will be measured or how long you have to achieve it.

Business objectives set out what a business wants to achieve. This provides a focus for all decisions. Employees know what they are supposed to achieve and can then make suitable decisions about the resources to use. Without objectives, employees do not know the priorities and do not know how success will be measured. This can lead to a loss of focus and a wasteful use of resources. The setting and pursuit of objectives of a business helps it to co-ordinate, monitor and control its activities, whether it operates within the private or the public sector.



■ **Figure 1.3.2** Business objectives

### ATL ACTIVITY 1.3.1

Go online and research the mission statements of three organizations. How do you think they affect the activities of the business? Be prepared to share your findings with the rest of your class.

◆ An **objective** is a target that is measurable and has a given timescale.

## ■ The communication of objectives and their likely impact on the workforce

Having an objective can be very motivating because it provides a sense of direction, so that employees know what they are doing and why, and how this fits in with the overall strategy of the business. It can also motivate because it sets workers a target, so they have something to aim for and something that can be reviewed.

However, objectives may be demotivating if the person who is set them does not believe in them and has no sense of ownership. If an employee felt they were set a target that could not be reached or did not have the budget to make it possible, they would probably feel demotivated. This means that how an objective is set and what resources are allocated to it are very important.

Involving the people responsible for achieving the objective should help make sure the objectives are realistic and that the people involved are committed to achieving them. If a target is forced on an employee, they may not try very hard to achieve it because they may not think it is feasible or even possible to meet.

### Business objectives and functional objectives

A business will have an overall or **corporate objective**, such as a target of doubling its profits within five years. This will then give the business' managers the opportunity and information to set **functional** (or departmental) **objectives**.

For example, if the overall business objective is to increase profits by 30% over the next five years, then during that period:

- the marketing department may have to increase sales by 40 per cent
- the operations management department may need to reduce costs by 20 per cent
- the human resources department may have a target to increase **labour productivity** by eight per cent.

Within each department every individual should also have his or her own objective. For example, to increase profits by 10 per cent this year, the person responsible for ordering supplies for the business may be set a target of finding a supplier that is five per cent cheaper. The manager in charge of sales for the south-east of the country may be asked to increase sales in their area by 30 per cent.

◆ A **corporate objective** is a target set for the business as a whole.

◆ A **functional objective** is a target for one of the functions of the business such as marketing, finance, operations or human resources.

◆ **Labour productivity** measures the output per time period of an employee.

## TOK

**If the effects of a mission statement cannot be easily measured, does this mean that they are worthless?**

### The problem with mission statements

As your reading on aims and objectives has shown, business objectives should be S.M.A.R.T (Specific, Measurable, Attainable, Realistic and Time Specific) – in being this, progress towards the completion of these can be gauged and resources (human, capital and material) can be reallocated, assigned and employed as required. This links well to Peter Drucker's Management by objectives approach to management (See Chapter X.X) where the manager sets the direction and benchmarking progress, intervening as and

when necessary. This also works well for short- and medium-term views of business.

However, as you will have seen, mission statements give an organization a long-term focus and direction – many mission statements have remained unchanged for years, even decades. Volkswagen's vision is: "Shaping mobility – for generations to come.", AirBnB: "is to help create a world where you can belong anywhere and where people can live in a place, instead of just traveling to it.", meanwhile Lego's mission is "reinventing play".

Because the effects of these mission statements cannot be easily measured or quantified, does this mean they are worthless?

## EXAM PRACTICE

- 1 Define the term *vision*. [2]
- 2 Explain how the strategy of a business is linked to its corporate objective. [4]
- 3 Explain **two** benefits to a business of having a mission statement. [6]
- 4 Discuss the value to a business of setting objectives. [10]



## ■ Business objectives in the private sector

We saw in Chapter 1.2 that private sector businesses are owned by individuals. Businesses in the private sector can have a number of objectives, including the following.

### Profits and profit maximization

**Profits** are measured by the difference between total revenue and total costs in a given period. Profits are a common measure of business success. A profit shows that the value (in financial terms) of the output is greater than the input. Profits show that a surplus has been generated. This surplus may be used to finance investment or may be paid to the owners. Many managers will have their own rewards linked to the profits the business generates. This is to ensure that managers stay focused on profit, which is what many owners and investors want.

Profits are maximized when the difference between sales revenue and total costs is at its greatest. Some businesses may seek to earn the greatest possible profits in a given period to satisfy their shareholders' desire for high dividends. This might be a short-term objective. Others may take a longer view and aim for higher profits over time. Investing in expansion may reduce short-term profits but put the business in a stronger position for the long-term. Amazon, for example, is very much focused on the long-term and accepts that growth and business development may reduce short-term profits. Many well-known businesses, such as Uber, Twitter and Tik Tok accept there will be many years of loss making before profits are made, as it takes time and money to build the business.

### Survival

This objective is for the business to continue to trade over a defined period of time, rather than be forced to cease trading because of poor financial performance such as negative cashflow. Survival is an important objective, even for the largest of businesses at certain times (such as during the pandemic).

Survival is likely to be a key objective during:

- the start up period of a business. This is because a start up has little market power and may have relatively low demand initially
- periods of recession or intense competition; this is because it may be more difficult to sustain demand
- times of crisis, such as during the 2020 Coronavirus (COVID-19) pandemic. Again, this will affect potential sales.

### Growth

Many businesses have an objective of growth. If a firm grows, it should be able to exploit its market position and earn higher profits. Growth may bring lower unit costs through economics of scale and greater brand awareness. A bigger business may also have more assets which may reduce the risk to lenders and so reduce the interest rate charged. A bigger business may also, potentially, be safer from acquisition by a competitor because it will be more expensive to buy it.

Growth can, therefore, benefit shareholders (in the long-term) by providing greater dividends, as well as offering better salaries and more job security to the employees and managers of the business. The case study on Starbucks shows that the company has set itself the aim of growth. This will have been expressed in quantified objectives, possibly relating to sales figures or grocery market share in other countries.

The growth of a business may be measured in many ways such as sales, **market share**, or number of stores.

◆ **Profits** are measured by the difference between total revenue and total costs in a given period.

### ● Common mistake

Sometime students mix up strategy and objectives. Remember that the objective is what you are trying to achieve. The strategy is how you intend to achieve it.

◆ The **market share** of a business measures its sales as a percentage of the total market sales.