**Functional and corporate objectives**

**Corporate objectives**

There is always potential confusion when using terms such as ‘corporate objectives’, ‘strategies’, ‘mission statements’, ‘aims’ and ‘plans’. Perhaps the easiest way of understanding how all these terms interrelate is to consider the fact that businesses may have a number of different objectives. But as far as a corporate objective is concerned, this means their target or aim.

All the different terms fit into a framework or a hierarchy. They are all dependent upon one another and, therefore, all dependent upon one another and are part of the organisation is expected to contribute towards meeting the corporate aim or object.

A typical hierarchy, which would show where all of these terms fit in, is outlined below:

- **Corporate aim or objective** – such as to innovate, to grow or diversify.
- **Corporate mission or mission statement** – this is a short and catchy sentence or short paragraph, which aims to encapsulate the corporate aims and objectives of the business.
- **Divisional objectives** – how each part of the organisation is expected to contribute towards meeting the corporate aim or objectives.
- **Departmental objectives** – how each department within each division is expected to make a contribution towards the corporate aim or objectives.
- **Specific individual targets** – these are given to particular managers or supervisors, as their contribution towards achieving the overall corporate aims and objectives.

**Common corporate objectives** are necessarily broad. This allows the business to employ a broad range of functional objectives in order to achieve the corporate objectives. In order for a business to be able to provide a good return for its investors, a number of different functional objectives will need to be employed, such as cost reduction, increasing sales or trying to gain market share. All of these will directly contribute towards maximising returns for investors.

**Functional objectives**

Functional objectives can be seen as being specific but still quite general ways in which corporate objectives can be achieved. It is not until we consider functional strategies themselves that we can actually see specific steps that a business can take to, for example, minimise its costs. At this level, however, functional objectives can still be pretty broad, as can be seen below:

- **Growth** – there are many different ways in which growth itself can be measured. It can be measured in terms of sales achieved, number of employees, and number of stores, outlets or different markets in which the organisation operates. It could also be measured in terms of changes in the amount of profit that a business makes. The objective of growth itself is therefore fairly broad and will often be quantified by statements such as ‘increasing the number of retail outlets from 110 to 140’.

  These can be specifically measured, and realisable targets can be set.

- **Maximising profits** – maximising profits as a functional objective can be seen as rather different from the broader objective of growth. Profits are used to either refinance further growth or to reward investors. The potential of making a profit is vital to balance the risks taken by business owners. However, maximising profits can be achieved by using a number of different functional strategies, such as cost-cutting, rises in prices, reduction of workforce or a reduction in distribution costs.

  One of the major problems in stating that profit maximisation is a principal objective is that short-term profits can undermine the long-term survival of the business, as it might encourage competitors to enter the market.

  **Increasing market share** – this is a more quantifiable objective. A business will have a fairly good idea of the overall size of the market and its share. By the general public in a negative way by throwing profits into greater growth and increasing profits, businesses are often accused of being greedy and have little regard for social, ethical or environmental concerns.

  Low wages, for example, are not acceptable, nor is the use of underpaid overseas employees. These bring the business into conflict with the law and adverse publicity. Businesses need to trade off growth and profit with consideration of these issues in order to show a degree of public responsibility, regardless of whether they are based on genuine beliefs or not.
Functional objectives and strategies

Setting corporate objectives is just the first step. Achieving the corporate objective requires a considerable amount of planning. A business will go through a number of stages when planning the functional objectives and strategies that will help it achieve its corporate objectives. The first step will be to identify its missions and goals. This is still fairly broad and not very easy to translate directly into functional strategies. A broad mission or goal might be to increase market share over a period of time. Functional strategies will then be put in place that specify goals, such as achieving an increase in market share year on year.

The business will usually begin by analysing its current situation, looking at a business from both inside and outside the organisation. You will already be familiar with the concept of SWOT analysis. By carrying out this type of analysis, the business can identify external factors that could be opportunities, or threats, such as increased competition. A business’s internal strengths might give it a competitive advantage, but its weaknesses could undermine other initiatives.

A business will begin to develop a series of strategies and plans that could be used, perhaps to improve efficiency in certain areas, to increase brand loyalty, to introduce total quality management or to try to differentiate its products and services from those of the competition. Corporate objectives could also be achieved by merging or acquiring other businesses, or perhaps by setting up production facilities closer to the market.

Once a business has developed its strategies, it then needs to implement them. Both organisational and management systems will be required to carry out the strategies. New systems may have to be designed or existing ones adapted. At all times the business needs to be in a position to monitor, evaluate and redirect strategies if they are not proving to be as effective as hoped.

Leaving evaluation until a strategy has run its course is not the best option to adopt. It can be useful to evaluate strategies at the end of a given period, but by that stage it may be too late to make the necessary adjustments. By continually evaluating strategies, subtle changes can be made in order to make them more effective, to remain on budget and to cater for internal and external changes as they occur.

Not all functional strategies are necessarily planned ahead of time. Some simply emerge as a solution to a particular problem at a particular time. However, by simply responding to problems and creating strategies to deal with them, a business is often seen as being reactive rather than proactive.

In order for strategies to achieve their goals, a business needs to have a broader and longer-term vision. Each strategy is an integral part of the overall vision. Particular projects and initiatives, while having individual goals or targets, are part of a far broader approach. Businesses also need to consider the overall effect that strategies can have on their customers or clients. Approaching each corporate objective with a blinkered view that it should just be for the benefit of the business itself is likely to cause enormous problems with customers. Increased profitability is not simply a question of pushing up prices for customers. By doing so, customers can be alienated and would seek similar products and services from competitors.

All functional strategies need to be given a specific timescale. Often these are referred to as ‘planning horizons’. This simply means the amount of time that a particular objective or initiative is given to set its plans and then to achieve them.

Contribution towards achieving corporate objectives

Each functional strategy needs to be suitable both for the business and for the goals that have been set. Therefore, businesses will use a wide variety of different strategies for different situations. Sometimes there will be clear functional plans, which could relate directly to human resources or marketing, for example. In other cases a business may have set up a contingency plan, which seeks to anticipate future problems and sets out a series of measures that the business will take if the worst-case scenario occurs.

All the functional strategies need to be flexible and dynamic. Corporate objectives and strategies are not cast in stone; they have to reflect and react to the economic environment in which the business is operating. A business needs to make sure that it is not necessarily deflected from its corporate objectives; but that it seeks to help bridge the gap. A series of new targets will be set, and initiatives put into place which could relate to training (human resources), increased customer awareness (marketing), customer incentives (sales), more stock available (production and purchasing), and greater commitment to customer support (customer services). Each element or functional strategy is designed to contribute to the overall objective; in this case, bridging the deficiency in sales, which would mean that a key corporate objective may or may not be achieved.

CASE STUDY: KINGFISHER’S WAY OF MANAGING RISKS

The Kingfisher Group tries to manage its business and development risks in order to minimise their likelihood or impact. The risks that they identify are common to many business organisations and include:

- economic and market conditions
- entering new markets
- competitive product ranges, prices and customer service
- innovation in big, developed businesses
- attracting and retaining the best people
- financial resources
- crises affecting trading and Kingfisher’s reputation
- in-store safety

Kingfisher has identified eight principal risks in managing the business and its development. In each case, suggest at least one functional strategy that could be used to minimise the likelihood or impact of each risk. (24 marks)