Aims and Objectives of Private Firms

Profitability.
The most obvious objective of any business is to make profits, that is a return on the capital (money) invested in the business. After all, why on earth run a business or invest in a business, if there is not going to be a worthwhile cash return? Profitability can be measured in a number of ways (you will learn these in detail when you study Financial Accounts), these measures of profitability include Gross Profit, and Gross Profit Margin, Net Profit and Net Profit Margin, and Return on Capital Employed (a measure of profitability against money invested).

When examining profits, a firm will need to make comparisons against rival forms, and so benchmark their own profitability. Long run increases in all measurers of profitability, linked to increasing shareholder value (see below), will be the main factors that create ongoing motivation in business owners and managers.

Profit maximisation is a key expression when considering how profitable a firm is. Many firms have been taken over because opportunities to increase or maximise profits have been spotted by predatory outside investors. Profit maximisation is often based on maximising brand value and minimising costs.

Increasing Shareholder value—measured by divi dend paid and share price. Dividend is the share of profits paid out to shareholders, so a dividend could be 4p per share. The important figure is Dividend Yield which is the amount of dividend as a proportion of the share price. Increases in share price are expected over time, the total increase in value of shares held is called capital gain. Many senior managers have bonus schemes related to increasing share prices and dividends, these will then become the main focus of the business. This is likely to be seen as both a short run and long run objective

In the shorter term other objectives can arise, and for some businesses these can, at least for the immediate future, be more important than making profits.

These other objectives include;

Survival - around 30% of businesses fail within 2 years of being set up. So for a small business, the initial objective is to survive the difficult time of gaining customers, establishing a good local name, and building a reputation. Even for some big businesses survival can become a priority. Marconi, one of Britain's most successful high-tec engineering firms in the 80's and 90's, was taken over by it's banks in 2002, as a result of falling profits and an inability to pay it's debts. Amazingly Nokia and RIM (blackberry phones) are finding that they are using their cash reserves and an incredible pace and some market analysts are seeing them as failing to survive the next five years.

Gaining Market Share - some firms will spend to gain customers, reducing profits in the short run, but hopefully increasing profits in the longer term. They may even be able to force other competitors out of the market, by using loss making pricing strategies.

Increasing Brand Identity- some firms may concentrate on establishing their brand name, becoming the most recognised firm in their

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market. This costs money, so reducing profits.

Ethics and going green - there are businesses that will try to minimise the impact of their business activities on the environment, they may try to ensure suppliers in developing counties get a good deal, they may pay their workers over the odds. All of theses ethical strategies will increase costs and so reduce profits.

So we see that although making profits, and giving a return to owners (through paying dividends and increasing shareholder value), will always be the number one and two priorities of businesses in the long run, in the short term can there be other more important objectives to pursue.

Notes