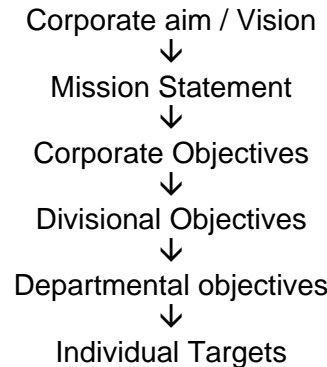


## **HIERARCHY OF OBJECTIVES**

Starts with broad aims and targets and narrows down to individual objectives.



Corporate aim – basic goal or general goal or purpose of the organization e.g. establishment as an ethical firm or maximize shareholders value and returns.

Mission Statement – purpose of organization stated in words. When the philosophy and at times core systems. They may be technical or emotional theme based.  
KODAK: We make memories old – we form films and pictures.  
They are displayed at several places so employees and visitors can see.

### **ARGUMENTS:**

Negative : Its not true – contradicting performance goods things are said but never done  
– very vogue can't be transferred into achievable facts.

Positive: - served as a formality – norms of corporate world  
- provides direction to employees get to know their purpose and framework of how to work  
- may help increase profits

Corporate objectives – set for whole organisation

- Survival
- Growth
- Increasing market share
- Maximizing profits
- Social, environmental and ethical considerations.

They are very specific and SMART

Specific  
Measurable  
Agree  
Realistic  
Timetabled

They should provide framework and guidance to set other objectives.

Divisional objectives: these are usually based on geographic division though could be based on product lines.

Departmental: they are for each of the markets, production and other functional department.

Individual: monthly basis.

Strategies – long – term plans to achieve the objectives, general and broad.

Tactics – short – term – specific and narrow e.g. advertising magazines, channels and so on.

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## **CORPORATE OBJECTIVES**

Factors which determine the corporate objectives:

1. corporate culture
2. size and legal form of the business
3. public or private sector businesses
4. the age of the business
5. financial strength of the business

## **CORPORATE OBJECTIVES**

- Q. List any six types of corporate objectives a business can set. Explain with their benefits and possible limitations, the following two corporate objectives:
- a. profit maximization
  - b. growth

Ans. Corporate objectives are the goals of the whole organization. They are the outcomes or largest that the business wants to gain in order to achieve its aims. They are specific, agreed upon by everyone involved, measurable, realistic or achievable and are time specific. Six types of corporate objectives are:

- i) Survival
- ii) Profit maximization
- iii) Growth
- iv) Increasing shareholder value
- v) Increasing market share
- vi) Social, ethical and environmental considerations

### **PROFIT MAXIMISATION**

This is the main objective assumed for all established private sector organizations. It means to produce at the output level where there is the greatest possible difference between sales revenue and total costs.

The major benefit is that greater returns are given to the investors or shareholders of the business. It means that the risk-takes of the business are satisfied so more people would be willing to invest into the business and so raise capital. Another support is that higher profits may mean greater re-investment into the business by which other objectives like growth could be achieved. Also it is thought as the most rational thing to achieve greatest possible profits as otherwise it would be a missed opportunity.

However there are several limitations to it. The owners of small firms may not wish to expand to the extent of reaching profit maximization point. They would be more interested in retaining control and could be satisfied with their current level of profits and lifestyle. They could also want to keep their revenue below VAT levels as well as not employ more workers. Firms also usually opt for sales maximization and by this decide their profit targets. Profit maximization is an aggressive short-term objective that would cause competitors to enter the market and endanger long-term survival. So firms usually keep long-term profits as their objective. Also it is very difficult to gather all the information such as costs, prices and demand to determine the precise maximization point. Also the pressure of objective of other stakeholders like workers and community make profits maximization impractical. Then performance of company is divided by return on capital employed rather than profits.

### **GROWTH**

The growth of businesses is the increase in sales and market share of the business which is usually also an increase in the total output level of the business. There are

several benefits to many stakeholders because of the growth and expansion of a business.

The growth of a business results in its becoming more competitive. Growing demand leaves survival no more a concern. Larger firms are able to dominate a market, enjoy monopoly power to a certain extent and raise prices too. They are less prone to take-overs and also benefit from economies of scale. Growing businesses are able to benefit from diversification and so reduce risks. They are able to introduce new ranges of products so if one range fails, there are many others and so the entire business doesn't fail. Managers are highly motivated as they have greater status get high salaries and fringe benefits if they make the growing business work to full potential. Directors and managers also have more power and recognition. The employees part of an expanding business may find their jobs more secure (if capital intensiveness isn't used) and could also get higher wages and so may be greatly motivated. Growth may also give higher profits and so greater returns to investors (shareholders and owners).

But growth has its own drawback. If business grow beyond a certain size, they may face diseconomies of scale because of poor communication and frustration amongst workers. Too rapid expansion may result in severe cash flow problems that could cause a profitable business to become insolvent. Also increase in sales may have been possible only by reduction in profit margins. So even though the business grow, it has lower profit margins. So even though the business grew, it has lower profits and so low returns to investors. Then the business may be re-investing a higher percentage of profits to grow which would result in anger amongst the owners / shareholders. Finally it may be that moving into new markets away from the 'core' activities would result in a loss of focus and unaccomplishment of the central aim of the organization leading to a loss of direction as well. This would result in inefficiency, low productivity and increased costs.

## CONSTRAINTS ON BUSINESS OBJECTIVES & STRATEGIES

Constraint – a constraint on business activity is a factor that limits or restricts particular courses of action's or strategies.

1. Internal Constraints result from the policy and strength of the business itself and are usually controlable.
  - Strengths
  - Weaknesses
  - Policy (Business)
  - People and their behaviour
2. External Constraints are limits on business activity from outside the business and are usually beyond the direct control of the business.
  - Economic Constraints
  - Political Constraints
  - Technological Constraints
  - Legal Constraints
  - Social, Ethical and Environmental Constraints

### Economic Influences

Macro – economic objectives of a government

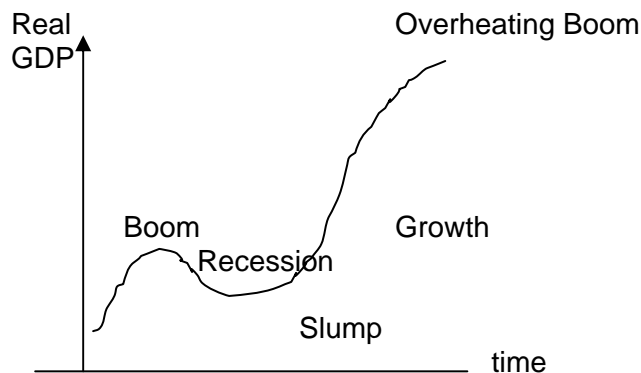
1. maintaining economic growth
2. controlling inflation
3. reducing unemployment
4. to maintain the balance of payment
5. to stabilize exchange rate

Economic growth – increase in the real GDP of a country in a particular period of time, usually one year. Real GDP is the nominal GDP minus affects of inflation. Benefits

- increase in production
- increase in employment
- increase exports so
  - ↑ balance of trade
  - ↑ balance of payment surplus
- increase in purchasing power
  - ↑ increase in prices
- investment: local as well as foreign increases.

### Negative

- price increase – types inflation
- other countries may impose protection measures
  - tariffs, quotas
  - increase costs



Boom – may lead to increase in prices that causes fall in aggregate demand and so employment is reduced and so overall GDP falls and purchasing power decreases.  
At slump – strong investors buy stock at this point as stock prices are low so they know that profits once grow the stocks would be very high.

2. Inflation – general and persistent rise in the levels of prices over a particular period of time.

Causes of Inflation.

- (a) cost – push inflation
- (b) demand – pull inflation
- (c) monetarist view of inflation

(a) This is when costs of production increases e.g. fuel price rises, raw materials increase, higher wages so prices are increased.

(b) Monetarist view is that when money supply increases so prices increases, interest rates decrease, installment buying is encouraged so flow of money increases so overall aggregate demand increases that pushes the prices.

Government monetary policy is related to the money supply

- reflationary / expansionally monetary policy
- deflationary / contractionary monetary policy

Reflationary – government decreases rates, ↑ installment buying ↑ leasing, ↑ borrowing, ↑ spending and so overall money supply increase. So all these measures increases demand so production will increase.

Deflationary – government increases interest rates

↓ leasing, ↓ installment buying, ↓ spending, ↓ borrowing so over all money supply decreases so all these measures decreases demand to lower inflation.

Deflation – decrease in price

Dis-inflation – level of prices are going up but at a slower rate than before.

Slump inflation – increase in inflation, so employees have to be laid off because of cost of production, cause of slump.

Traditional relation is, when inflation is high unemployment is low.

### Fiscal policy of governments:

Government budget: government Revenue – Taxation  
high taxes government Expenditure – Social Welfare,  
↓ disposal income Defence, distribution of wealth / serve  
↓ prices fall ↓ demand falls → ↓ reduces economy

### 3. Unemployment

is a situation where people who are willing and able to work cannot find proper jobs. (or appropriate jobs)

Types:

- (i) Cyclical Unemployment
- (ii) Structural Unemployment
- (iii) Frictional Unemployment
- (iv) Seasonal Unemployment
- (v) Technological Unemployment
- (vi) Regional Unemployment
- (vii) Voluntary Unemployment
- (viii) Residual Unemployment

1. Cyclical is due to recession in overall economy.
2. Deindustrialization. Structural is due to any reason a industry (e.g. textile) is decline. Even in tertiary sector
3. When people switch jobs so in between time is frictional.
4. When employment situations change due to season e.g. agriculture, woolen garments in summer, construction when projects are being made so once completed the people are unemployed.
5. Technological is due to automation i.e. when industries become capital – intensive.
6. When factories move from one region to another so unemployment in the left region. When unemployment occurs in any one region.
7. Voluntary is when people choose not to work because of unemployment benefits even though they are able to work. (willing & able but want to delay) e.g. wanting for a higher salary pay.
8. Residual is due to disabilities of people i.e. when they become physically and mentally disabled but to only a certain extent. These are people with simple disabilities.

### Impacts of Unemployment

1. lowered aggregate is demand – due to decrease in purchase power as incomes are low as unemployment & ↑. Due to this output decreases.
2. lesser tax revenues for the government – government expenditure increases, burden on working population increases.
3. social costs – crime rate ↑, frustration ↑ and suicide ↑, measures against government.
4. wastage of a very imp. factor of production i.e. labour → production possibility curve not achieved → efficient utilization of FOPs is not possible. Unemployment means exploitation of employees are possible as they are desparate. So low wages rates.
5. balance of Payments  
It is a summary of all the payments made by a country and proceeds taken by a country over a particular period of time which is one year. It is actually the monetary record of transactions of one country with the rest of the world. It is a summary of cash flows.

Surplus of bop

- government invests the money into some other country.
- give loans to other countries

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- put in reserves
- deficit of bop
- take loans from other countries (IMF, WTO, World Bank)
  - invite investors to invest in country
  - take out money from reserves
- Impacts of bop deficit
- liabilities increase
  - bankruptcy
  - interest payments increase
  - economy can go to a slump
  - foreign exchange rate decrease as demand of currency falls
  - reserves go down so output decrease
- ↓
- unemployment increases

- Impacts of bop surplus
- inflation increases due to money supply increases and value of money decreases.
  - Trading countries can impose protection measures.

Important aspect, goods

- Current A/C – visible trade & invisible trade
- Capital A/C – big foreign investments air bus. sector / loans
- Other investments – bank transactions, remittances

EXCHANGE RATES

- It is the value of one currency against another currency appreciation – spend less of currency to buy
- Increase of value spend less to buy one unit of another
- Currency depreciation
- Decrease in value – spend more of currency to buy one unit of another
- Depends on demand and supply of currency



## **MACRO – ECONOMIC POLICIES**

- Q. Explain macro – economic policies of the government.
- monetary policy
  - fiscal policy
  - exchange rate policy

- Ans. The macro – economic policies of the government are those that affect the overall economy of a country. There are three types of macro – economic policies.
- (i) Fiscal policy
  - (ii) Monetary policy
  - (iii) Exchange rate policy

### **FISCAL POLICY**

This policy is related to the government budget which is the government income through taxation, its expenditure as well as borrowing. This policy is used to control the aggregate demand as well as inflation to stabilize the economy i.e. avoid many unwanted slumps or booms that may be bad for overall economic growth.

When the economy is in recession and the rates of unemployment are high, this means that two of the objectives of government are not being met which are economic growth and low unemployment. To counter this, the government would increase its spending by constructing new hospitals and schools. The government would also reduce direct and indirect taxes which are corporation tax, income tax and value added tax respectively. This would result in a rise of disposable income i.e. an increase in the purchasing power of the public. Therefore, the aggregate demand for goods and services would increase. So there would be an increase in the industrial output i.e. a rise in GDP. Also employment would increase as more people are required to produce the increased output. However, if the economy is booming and is in danger of overheating then there may be very high rates of inflation and current account deficit. It may be due to a very high aggregate demand. So to counter this, the government would reduce its expenditure by cutting back on road construction. Also, higher taxes could be imposed like income tax or value – added tax (this would increase price). Due to this the consumer demand falls as their disposable income is decreased. These measures would control the excessive economic growth and current account deficit would reduce.

### **MONETARY POLICY**

This policy is related to the changes in interest rates that causes an increase or decrease in money supply. This in turn works for the regulation of inflation and so the economic growth is kept in check.

When inflation is increasing and is forecasted to reach levels beyond that which the government wants, then deflationary or contractionary monetary policy is used. So the central bank or state bank increases the interest rates. This leads to decrease in leasing, installment buying and borrowing of money as no one wishes to pay higher rates of interest. There is also a fall in spending and so the money supply is reduced. Therefore, the overall aggregate demand falls and this would lead to a decrease in inflation as prices are lowered. Also the existing loans and mortgages would now take up a greater part of the income as interest on them increases. This further reduces the disposable income of the customers and is another factor that leads to fall in aggregate demand.

On the other hand, if the inflation rates are too low, then the government would decrease the interest rates. This would encourage the customers to buy good especially houses, cars and machinery on borrowed loans, by leasings and through installment buying as less interest has to be paid. Also the interest on existing loans and mortgages would decrease and so the disposable income of customers increase. Therefore, they are able to buy more products and so the aggregate demand increases. This would push up



prices leading to higher rates of inflation. This is called reflationary or expansionally monetary policy.

Controlling inflation so that prices don't increase a lot nor decrease too much sustains the real GDP and so cause continuous economic growth that also keeps levels of unemployment low.

#### EXCHANGE RATE POLICY

Exchange rate is the price of one currency or the value of a currency in the terms of another currency. The policy of the government would be to decide if they want it to float or to be fixed.

A floating exchange rate is determined by the demand and supply of the currency in the international market. If the demand increases, then the exchange rate appreciates as its value increases e.g. when the interest rates of the country are high. This is good for the importing businesses as they buy more in the same amount of money. However, when the demand falls, then the currency depreciates and its value falls e.g. if 60 Rupees = US\$1 and the US\$ depreciates then 50 Rupees = US\$ 1. This shows that the value of rupee appreciates as less is to be given in return of \$1. This is good for exporters.

However, too many fluctuations in the exchange rate prove bad for domestic industries and its the government's duty to keep the rates stable.

## **FURTHER ECONOMIC CONSTRAINTS**

Labour Market: one of a types of market

Factors determining the demand of labour:

- 1) Demand for the finished product  
(labour has a derived demand) i.e. influenced by a demand of finished good.
- 2) The effects of technology or the price and efficiency of labour saving machinery.  
Price of machinery efficiency ↓ of machinery ↑ then demand of unskilled labour ↓ and demand of skilled labour ↑.
- 3) The trend of the industry to increase capital intensity.

Factors effecting supply of labour:

- |   |   |                 |
|---|---|-----------------|
| <ol style="list-style-type: none"> <li>1) population size</li> <li>2) mobility of labour</li> <li>3) %of working population</li> <li>4) no. of people who are not willing to work</li> <li>5) unemployment</li> </ol>   | } | For the economy |
| <ol style="list-style-type: none"> <li>6) wage rate offered by particular industry.</li> <li>7) availability of suitable labour in other industries</li> <li>8) level of unemployment (structural unemployment)<br/>Unemployment ↑ supply ↑ people are ready to work even at lower wages</li> </ol> | } | To the industry |

If there is skill surplus then wages will decline and if there is skill shortage then wages will rise.

### To cover skill shortages

- 1) To hire more trained staff
- 2) Training your existing employees

### Advantages of hiring new training employees

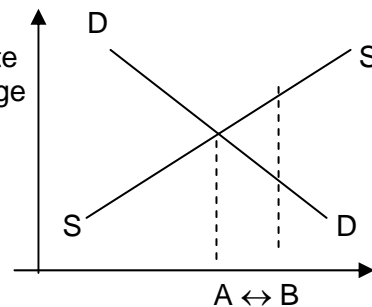
- 1) Saves time
- 2) New employees can bring new ideas to business.

### Disadvantages

- 1) frustration would be created because they (existing employees) will think that they should be trained rather than training new person.
- 2) cost of training increases.

### State intervention to handle labour market

- 1) government set up a minimum wage rate if government increases the level of wage rate then supply would be more but demand would be less so employees from A to B will become unemployed.



## **MARKET FAILURE**

Market failure – when the resources are not utilized efficiently.  
Resources can be underutilized i.e. when resources are not fully used  
Resources cannot be over utilized.

Types of market failure (examples)

1. External cost (effect on good, consumers and workers)
2. Inadequately trained labour (effect on govt., consumer and companies)
3. Exploitation by monopolies

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