

Strategic objectives - the purpose of business

Case duration (Min):

45-60

Strategic Management (SM)

Strategic objectives**Worldwide****Case summary:**

This is a long detailed film clip (54min) however, the first 4.5 min are an introduction; the key issue starts at 6:30 min and the main speech ends at 26:00 min - the remaining time is for a variety of questions. If time is constrained, the tutor should start the film clip at 6:30 and end at appx 26:00 (20 min duration)

One common view of business makes a sharp distinction between making money and doing good in society. This is a "limited and distorted" perspective, according to John Browne. Business that focuses just on money doesn't invest in the future -- in its employees, new ideas, markets or products -- and won't be around for long. Any successful business is part of society, says Browne, "and exists to meet society's needs."

Learning objectives:

Explain, with reference to economic theories of the firm and corporate social responsibility, why organisations exist, their purpose

Discuss the significance of profits

Identify the key issues involved in social responsibility and business ethics

Case problem:

What is the purpose of business?

Oil & Gas Drilling & Exploration

Company

BP p.l.c.

Lord John Browne - Group Chief Executive, BP p.l.c.

John Browne joined BP in 1966 as a university apprentice. Between 1969 and 1983, he held a variety of exploration and production posts in Anchorage, New York, San Francisco, London and Canada. In 1984 he became group treasurer and chief executive of BP Finance International. In April 1986, he took up the position of executive vice president and chief financial officer of The Standard Oil Company in Cleveland, Ohio.

In 1987, following the BP/Standard merger, in addition to his position as executive vice president and chief financial officer of BP America, he was appointed chief executive officer of Standard Oil Production Company. In 1989, he became managing director and chief executive officer of BP Exploration based in London.

In September 1991, he joined the board of BP as a managing director. He was appointed group chief executive on June 10, 1995. Following the merger of BP and Amoco, he became group chief executive of BP Amoco on December 31, 1998.

In 1999, the Royal Academy of Engineering awarded Browne the Prince Philip Medal for his outstanding contribution to the field of Engineering. He was knighted in the 1998 Queen's Birthday Honours and made a life peer in 2001.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type

URL/ Media description

The Purpose of Business

<http://mitworld.mit.edu/video/365>

Film

As the leader of one of the world's largest and most enduring energy corporations, Browne well understands the importance of marrying commercial concerns -- "the need to make money to reward those who've trusted us with investment" -- with a socially creditable mission. A good business fulfils its purpose "by supplying goods and services at a price people can afford in a manner which makes the activity sustainable."

BP's just completed 16-year project--the 1,767km Baku-Tbilisi-Ceyhan (BTC) pipeline--developing the energy resources of the former Soviet republic of Azerbaijan makes Browne's case. An investment of \$15 billion is about to culminate in oil flowing from an 1,100-mile-long pipeline winding its way through Georgia to the Turkish coast, close to environmentally sensitive areas and across countries "where land ownership and borders are not quite certain," as Browne puts it. BP has had to contend with countless complexities and hazards: an invasion of Azerbaijan by Armenia at the project's start; building up a local work force and security along the entire pipeline; cooperation among financial institutions on the route to ensure revenue would flow not just to governments but to small communities; avoidance of negative environmental impact.

The world's thirst for oil and gas continues unabated, says Browne, with "no real alternatives to hydrocarbons." At the same time, anxiety is climbing around both the security of energy supplies and changes in the climate. "To restore security," Browne concludes, business and government must invest in improvements in oil and gas exploration and recovery, and in mechanisms that can soothe markets when disruptions --whether hurricanes or terrorism -- strike energy supplies.

NOTES:

Case study questions...

Action		Pre/During/After class
1	WHY ORGANIZATIONS EXIST Consider why organizations exist– organizational purpose. Critically evaluate Browne's arguments about the purpose of business. What does he believe the purpose of business is? What are his views on profit-making and corporate social responsibility as objectives (the purpose of business)? What does he believe a business needs to succeed? In your answer you should draw upon the comments made within the film clip and your wider reading. You should reference the theory of the firm, stakeholder theory and the triple bottom line.	During

Answers...

TRIPLE BOTTOM LINE REPORTING

Corporate reporting focusing on social and environmental aspects of the company, in addition to traditional financial information.

CORPORATE SOCIAL RESPONSIBILITY

This concept gives rise to how a company should conduct itself within society, and different views on what a business is for and how it should act.

PROFIT

Difference between revenues and costs

MISSION

a statement of the overriding direction and purpose of an organisation

STAKEHOLDER

anyone concerned with how an organization operates, and who is going to be affected by an organizational change or programme of changes.

STAKEHOLDER THEORY

the role of the organization is to satisfy a wider set of stakeholders, not simply the owners

Question/ Answer

1 WHY ORGANIZATIONS EXIST

Consider why organizations exist— organizational purpose. Critically evaluate Browne's arguments about the purpose of business. What does he believe the purpose of business is? What are his views on profit-making and corporate social responsibility as objectives (the purpose of business)? What does he believe a business needs to succeed? In your answer you should draw upon the comments made within the film clip and your wider reading. You should reference the theory of the firm, stakeholder theory and the triple bottom line.

The purpose and goals, of organizations varies dependent upon whether they are established to make profit for their owners or to deliver public or charitable services. The theory of the firm consists of a number of economic theories which describe the nature of the firm (company or corporation), including its existence, its behaviour, and its relationship with the market. The traditional 'theory of the firm' assumes that profit maximization is the goal of the commercial organization. More recent analyses suggest that sales maximization or market share, combined with satisfactory profits, may be the main purpose of large industrial corporations. Furthermore, whilst traditional views recognised only the shareholder as the focus of organizational goals, more recently, organizations have considered society as a key stakeholder. Organizations exist in a wider environment, explored in the case study, where they typically compete with other organizations for revenues. If the costs of doing business are less than the amount customers are willing to pay for the organization's goods and services the organization makes profit which may be retained or distributed to shareholders. Amongst the performance measurements for organizations is the triple bottom line. The triple bottom line (or "TBL", "3BL", or "People, Planet, Profit") captures an extended range of values and criteria for measuring organizational success; economic, environmental and social. The concept of TBL demands that a company's responsibility be to 'stakeholders' rather than shareholders. In this case, 'stakeholders' refers to anyone who is influenced, either directly or indirectly, by the actions of the organization. People (Human Capital) pertains to fair and beneficial business practices toward labour and the community and region in which a corporation conducts its business; Planet (Natural Capital) refers to sustainable environmental practices and Profit (not limited to the internal profit made by a company or organization) is the bottom line shared by all commerce - the economic benefit enjoyed by the host society. The triple bottom line idea proposes that an organisation's license to operate in society comes not just from satisfying stakeholders through improved profits (the economic bottom line), but by also improving its environmental and social performance. As such, it encompasses environmental responsibility, social awareness and economic profitability. Stakeholder theory - the role of the organization is to satisfy a wider set of stakeholders, not simply the owners Profit as an objective-Browne believes that making money and increasing shareholder value is too simple as an objective. His view is shared by a number of scholars who simply see profit as a means to other ends. Profit may be necessary for survival but it is unlikely to be the reason why the business was formed or why it now exists. Browne believes that we need to behave responsibly but that these are not additional objectives or purposes and should be integral not additional. What is important is the way you work. We need to reward investors but this isn't the prime purpose. A good business is part of society and exists to meet society's needs. Browne argues that organisations cannot exist or succeed on their own; they need good public policy, good relationships with customers and suppliers (and a range of other stakeholders) and new knowledge. One common view of business makes a sharp distinction between making money and doing good in society. This is a "limited and distorted" perspective, according to John Browne. Business that focuses just on money doesn't invest in the future -- in its employees, new ideas, markets or products -- and won't be around for long. Any successful business is part of society, says Browne, "and exists to meet society's needs."

Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.

Thompson, J L. and Martin, F. (2005) 'Strategic Management', Ed. 5. Cengage Learning EMEA.

