
Corporate influences

2017-18

INFLUENCES ON BUSINESS DECISIONS

Factors that influence business decisions:

▶ **Corporate influence:**

- ▶ consistency of *long-term objectives* and *short-term goals*
- ▶ *evidence-based* vs. *subjective decision-making*

▶ **Corporate culture:**

- ▶ open culture → innovation & change
- ▶ resistant to change → no innovation & loss of competitive edge

▶ **Stakeholder perspective:**

- ▶ shareholder approach: views of interest of a smaller group
- ▶ stakeholder approach: wider group

▶ **Business ethics:**

CORPORATE TIMESCALES

- ▶ Long-term impact: e.g., 5 to 10 years
- ▶ Short-term impact: e.g., 12 months

SHORT-TERMISM

- ▶ Short-termist companies are likely to focus on:
 - ▶ Maximise short-term profits
 - ▶ Invest less money in R&D
 - ▶ Invest less in training
 - ▶ Return cash to shareholders
 - ▶ Engage in asset stripping
 - ▶ Arrange more short-term contracts
 - ▶ Pursue external growth rather than organic growth

SHORT-TERMISM

- ▶ Drawbacks of short-termism
 - ▶ short-termism might threaten *long-term profitability*
 - ▶ loss of *competitive edge*
 - ▶ quarterly financial reports force managers to focus on short-term
 - ▶ short-term contracts → sends out wrong message

LONG-TERMISM

- ▶ invest in R & D
- ▶ new product development
- ▶ innovations
- ▶ recruit high-quality staff
- ▶ train staff
- ▶ build up loyalty
- ▶ use long-term contracts (e.g., suppliers, staff, ...)

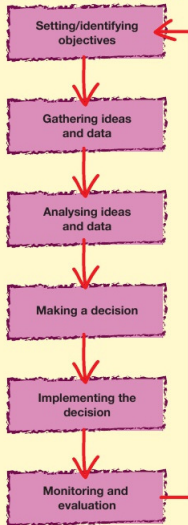
EVIDENCE-BASED VERSUS SUBJECTIVE DECISION MAKING

- ▶ *Evidence-based* decision making:
systematic/rational approach
researching/analysing data
- ▶ *Subjective* decision making:
personal opinions influence course of action

EVIDENCE-BASED DECISION MAKING

- ▶ Identifying objectives
- ▶ Collecting information and ideas
- ▶ Analysing information and ideas
- ▶ Making a decision
- ▶ Communication
- ▶ Outcome
- ▶ Evaluate the results

An evidence-based approach to decision making



SUBJECTIVE DECISION MAKING

- ▶ lack of data/information → decision-maker forced to do subjective decisions
- ▶ presence of experienced/powerful/persuasive leaders
- ▶ some industries rely on good instincts (e.g., fashion)
- ▶ if decisions have to be taken *quickly*

KEY TERMS

- ▶ **Asset stripping:** the practice of buying businesses and breaking them up. The profitable parts are sold for cash and the rest are closed.
- ▶ **Evidence-based decision making:** an approach to decision making that involves gathering information and using a systematic and rational approach to reach a conclusion.
- ▶ **Long term:** the time period where decisions have an impact on the vision, mission and objectives of a business – typically longer than five years.

KEY TERMS

- ▶ **Short term:** the time period where decisions only have an impact on the operational activities of a business – typically less than five years.
- ▶ **Strategic decisions:** decisions concerning policy that can have a long-term impact on a business. Can be risky.
- ▶ **Subjective decision making:** an approach to decision making where the personal opinions of the key decision maker strongly influence the course of action chosen

KEY TERMS

REVISION OF CHAPTER 23

- ▶ **Private equity company:** A business usually owned by private individuals backed by financial institutions
- ▶ **Public limited company:** A company owned by shareholders where the shares can be traded openly on the stock market
- ▶ **Stock market:** A market for second-hand shares
- ▶ **Stock market flotation or initial public offering (IPO):** The process of a company 'going public' making shares available to the public for the first time

KEY TERMS

REVISION OF CHAPTER 24

- ▶ **Choices:** In business, deciding between alternative uses of resources
- ▶ **Opportunity cost:** When choosing between different alternatives, the opportunity cost is the benefit lost from the next best alternative to the one that has been chosen
- ▶ **Trade-offs:** In business, where a decision-maker faces a compromise between two different alternatives; for example, between paying dividends to shareholders and re-investing profits in the business