# Objectives of a New Business

What motivates someone to become an entrepreneur?

Money of course! The chance to earn significant profits, buy a yacht, take numerous holidays, buy designer goods and send the kids to the best private schools.

But, wait a minute! Is money and personal wealth really the main motivation?

Evidence suggests that there are many more reasons why someone wants to start a business.

Every business starts small. But by taking on some calculated risks, a lot of determination and some luck, a start-up business can become very large, profitable and valuable. However, not every entrepreneur wants to build a big business and earn a fortune.

The objectives when starting a business can be broadly split into two categories:

- **Financial** objectives, and
- **Non-financial** objectives

The media tend to focus on the financial objectives – so let's deal with these first.

## Financial objectives

Most business start-ups begin with one main financial objective – to **survive.**

Why survival? Because a large percentage of new businesses do not survive much beyond their launch. The entrepreneur discovers that the business idea is not viable – the business cannot be run profitably or it runs out of cash. Start-ups have a high **failure rate.**

Survival is about the business living within its means. To survive, the business needs to have enough cash to pay the debts of the business as they arise – suppliers, wages, rent, raw materials and so on. To survive, a business needs to have:

- Sufficient **sources of finance** (e.g. cash, a bank overdraft, share capital)
- A **viable business model** – i.e. one which can make a **profit**

If survival can be assured, then **profit** is the next most important financial objective for a new business. A profit is earned when the **revenue of the business exceeds the total costs.** The entrepreneur can choose to reinvest (aka "retain") the profit in the business, or take it out as a personal payment or dividend.

For many small business owners, profit is the **return** for all the hard work and **risks** taken. Profit is the **reward** for taking a risk and making an investment. Ideally, the profit earned is sufficient to provide the entrepreneur with enough income to live. In many cases it will be more than sufficient, once the business has been trading successfully for a few years

However, it is important to appreciate that, to make a **sustainable** profit, a new business needs to be able to:

- Add value
- Sell into a large enough market

Another financial objective is **personal wealth**. Some entrepreneurs have an objective that goes beyond wanting to earn an adequate income. They aim to build a valuable business that can substantially increase their personal wealth.

## Non-financial objectives

Contrary to popular belief, starting a business is not always about financial objectives. Very often a new business is started with other, non-financial objectives in mind.

Here are some of the non-financial motives that are often quoted by entrepreneurs:

- **More control over working life** – want to choose what kind of work is done. The need for greater **independence** is a major motivator.
- **Need a more flexible and convenient work schedule**, including being able to work from or close to home. This motive is an important reason behind the many home-based business start-ups
- Feel that **skills are being wasted** and that potential is not being fulfilled
- Want to **escape** an uninteresting job or career
- A desire to pursue an **interest or hobby**
- Fed up with being told what to do – **want to be the boss!**
- Want the feeling of **personal satisfaction** from building a business
- Want a greater **share of the rewards** from the effort being put in – compared with simply being paid by an employer
- **Fed up** with working in a business hierarchy or bureaucratic organisation (people with entrepreneurial characteristics often feel stifled working and having to co-exist with others!
- As a response to a shock or other **major change in personal circumstances** – e.g. redundancy, divorce, illness, bereavement

## Social enterprise

One kind of business structure that has grown rapidly in the UK in recent years is the "social enterprise". Social enterprises are the most common form of "**not-for-profit"** enterprises.

The clue in the phrase "**not-for-profit**" tells you much about the **aims and objectives** of social enterprises. However, it is important to appreciate that a social enterprise is not a charity.

Social enterprises are defined as:

- "Businesses with primarily **social objectives** whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners'.

In other words, a social enterprise is a **proper business** that makes its money in a **socially responsible way**. These ventures are not necessarily formed to reinvest all profits into the communities. Social entrepreneurs can make a good profit themselves.  However, their business model is also designed to benefit others.

Social enterprises complete alongside other businesses in the same marketplace, but use business principles to achieve social aims.

A few things all social enterprises have in common are:

- They are directly involved in producing goods or providing services
- They have social aims and ethical values
- They are **self-sustaining**, and do not rely on donations to survive (i.e. they are not charities)

Well known examples of social enterprises include Divine Chocolate, the Eden Project and fair-trade coffee company Cafedirect.

Recent government data suggests that there are more than 55,000 social enterprises in the UK with a combined turnover of £27bn. Social enterprises account for 5% of all businesses with employees, and contribute £8.4billion per year to the UK economy.