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ABOUT THIS BOOK

This book is written for students following the Pearson Edexcel International Advanced Level (IAL) Business specification. It covers the second year of the International A level qualification.

The book has been carefully structured to match the order of topics in the specification although teaching and learning can take place in any order, both in the classroom and in any independent learning. This book is organised into two units (Unit 3: Business decisions and strategy and Unit 4: Global business), each with several topic areas.

Each topic area is divided into chapters to break the content down into manageable chunks. Each chapter begins by listing the key learning objectives and includes a getting started activity to introduce the concepts. There is a mix of learning points and activities throughout including global case studies to show a range of businesses within real-life contexts. Checkpoint questions at the end of each chapter help assess understanding of the key learning objectives.

The content for Unit 3 is applicable for Paper 3 (Business decisions and strategy) and the content for Unit 4 is applicable for Paper 4 (Global business). Knowing how to apply learning to both of these papers will be critical for exam success. There are exam-style questions at the end of each chapter to provide opportunity for exam practice. Answers are provided in the online teaching resource pack.

Getting started
An activity to introduce the key concepts in each chapter. Questions are designed to stimulate discussion and use of prior knowledge. These can be tackled as individuals, pairs, groups or the whole class.

Key subject terms are colour coded within the main text.

MISSION STATEMENTS

All businesses have aims. These are the things the business wants to achieve in the long term – its purpose or reason for being. The aims of a business are less specific than its objectives and can be expressed as a vision. Business aims are discussed in detail in Student Book 1, Chapter 21. A business will often communicate its aims through a mission statement.

A mission statement makes this point.

There are two reasons why a business may create and share a mission statement. The first is to make a commitment to its customers. A mission statement expresses a promise to customers of what they can expect the business to be for. Secondly, a mission statement can be used to bring a company’s workforce (i.e. all the people who work for a company) together with a shared purpose. Many successful businesses have found that establishing a mission statement inspires employees to work hard to achieve business aims. This is why a mission statement is important in forming a company culture.

Some mission statements are short. Others are long and detailed. Some examples of mission statements are given below.

- R&F Fitness Centre: ‘We improve levels of fitness by making our facilities as easy and convenient as possible.
- A&L Entertainment Group: ‘To encourage targeted loyalty to improve levels of service.
- DHC Coffee Shop: ‘To offer a comfortable environment and an excellent range of coffee to refresh our customers in body, mind and spirit.’

Getting started
An activity to introduce the key concepts in each chapter. Questions are designed to stimulate discussion and use of prior knowledge. These can be tackled as individuals, pairs, groups or the whole class.

Learning objectives
Each chapter starts with a list of key assessment objectives.
The value of Cattle Snaffle’s net assets in 2017 was €49.8 million. This means that if the company were to be wound up, the net assets would be, after paying all liabilities, available to pay creditors. The value of net assets is sometimes called share capital.

If the net assets are less than the liabilities, a business is said to be solvent. In this case, the shareholders might lose some or all of their investments. If the net assets are substantially greater than the liabilities, a business is said to be solvent. In this case, the shareholders can have confidence in the business and will be more willing to invest.

The balance sheet might be published in more detail to allow for greater understanding by stakeholders, but the format and structure would be similar. If a business has to be wound up, the balance sheet provides information about how the total assets will be distributed once the liabilities have been paid.

The balance sheet also shows the capital of a business. This might be considered inadequate because the value of new shares issued might not be high enough to cover the cost of purchase. The value of new shares issued might be considered inadequate because the value of new shares issued might not be in line with the value of old shares. The value of new shares issued might be considered inadequate because the value of new shares issued might not be in line with the value of old shares.

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# ASSESSMENT OVERVIEW

The following tables give an overview of the assessment for this course. You should study this information closely to help ensure that you are fully prepared for this course and know exactly what to expect in each part of the assessment.

<table>
<thead>
<tr>
<th>PAPER 3</th>
<th>PERCENTAGE OF IAL2</th>
<th>PERCENTAGE OF IAL</th>
<th>MARK</th>
<th>TIME</th>
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<th>STRUCTURE</th>
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<tr>
<td>BUSINESS DECISIONS AND STRATEGY</td>
<td>50%</td>
<td>25%</td>
<td>80</td>
<td>2 hours</td>
<td>January, June and October</td>
<td>There will be three sections, A, B and C. Students must answer all questions. Section A: short- and extended-response questions based on sources (40 marks) Section B: one 20-mark essay question, based on one or more sources (20 marks) Section C: one 20-mark essay question, based on one or more sources (20 marks)</td>
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<tr>
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<td>First assessment: January 2020</td>
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<tr>
<td>Paper code WBS13/01</td>
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<td>Single tier of entry</td>
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<th>MARK</th>
<th>TIME</th>
<th>AVAILABILITY</th>
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<tr>
<td>GLOBAL BUSINESS</td>
<td>50%</td>
<td>25%</td>
<td>80</td>
<td>2 hours</td>
<td>January, June and October</td>
<td>There will be three sections, A, B and C. Students must answer all questions. Section A: short- and extended-response questions based on sources (40 marks) Section B: one 20-mark essay question, based on one or more sources (20 marks) Section C: one 20-mark essay question, based on one or more sources (20 marks)</td>
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<td>Calculators can be used</td>
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# Assessment Objectives and Weightings

<table>
<thead>
<tr>
<th>Assessment Objective</th>
<th>Description</th>
<th>% in IAS</th>
<th>% in IA2</th>
<th>% in IAL</th>
</tr>
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<tbody>
<tr>
<td><strong>A01</strong></td>
<td>Demonstrate knowledge and understanding of terms, concepts, theories, methods and models</td>
<td>27.5</td>
<td>20</td>
<td>23.8</td>
</tr>
<tr>
<td><strong>A02</strong></td>
<td>Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues</td>
<td>25</td>
<td>22.5</td>
<td>23.8</td>
</tr>
<tr>
<td><strong>A03</strong></td>
<td>Analyse business issues, showing an understanding of the causes, costs and consequences for individuals and organisations</td>
<td>27.5</td>
<td>30</td>
<td>28.8</td>
</tr>
<tr>
<td><strong>A04</strong></td>
<td>Evaluate evidence to make informed judgements and propose evidence-based solutions to business issues</td>
<td>20</td>
<td>27.5</td>
<td>23.8</td>
</tr>
</tbody>
</table>

Note: Totals have been rounded either up or down.

## Relationship of Assessment Objectives to Units

<table>
<thead>
<tr>
<th>Unit Number</th>
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<tr>
<td></td>
<td><strong>A01</strong> <strong>A02</strong> <strong>A03</strong> <strong>A04</strong></td>
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<tr>
<td>Unit 1</td>
<td>6.9%     6.3%     6.9%     5%</td>
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<tr>
<td>Unit 2</td>
<td>6.9%     6.3%     6.9%     5%</td>
</tr>
<tr>
<td>Unit 3</td>
<td>5%       5.6%     7.5%     6.9%</td>
</tr>
<tr>
<td>Unit 4</td>
<td>5%       5.6%     7.5%     6.9%</td>
</tr>
<tr>
<td>Total for International Advanced Level</td>
<td>23.8%     23.8%     28.8%     23.8%</td>
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Note: Totals have been rounded either up or down.

## Relationship of Assessment Objectives to Command Words

<table>
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<td>Points based</td>
<td>A01, A02, A03</td>
</tr>
<tr>
<td>Construct</td>
<td>4</td>
<td>Points based</td>
<td>A01, A02, A03</td>
</tr>
<tr>
<td>Explain</td>
<td>4</td>
<td>Points based</td>
<td>A01, A02, A03</td>
</tr>
<tr>
<td>Analyse</td>
<td>6</td>
<td>Points based</td>
<td>A01, A02, A03</td>
</tr>
<tr>
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<td>Levels based</td>
<td>A01, A02, A03, A04</td>
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<tr>
<td>Assess</td>
<td>12</td>
<td>Levels based</td>
<td>A01, A02, A03, A04</td>
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<tr>
<td>Evaluate</td>
<td>20</td>
<td>Levels based</td>
<td>A01, A02, A03, A04</td>
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This section looks at the goals and aims of corporations and the way that they might present strategy in mission statements. It explores the different theories of corporate strategy, such as Ansoff’s Matrix and Porter’s Strategic Matrix. It identifies the effects of strategic and tactical (i.e. carefully planned) decisions on the resources of the business. The section also considers the way a corporation might assess the strengths, weaknesses, opportunities and threats that it faces. Finally, it will investigate the impact of external influences on businesses such as political, economic, social, technological, legal and environmental factors.
By the end of this chapter you should be able to understand:
- the development of corporate objectives from mission statement/ corporate aims
- the critical appraisal of mission statements.


### Values
Businesses are likely to state the corporate values that they emotionally invest in. These might include qualities such as integrity, sustainability, innovation and quality. The values held by a corporation are likely to influence its culture.

### Standards and behaviour
Some mission statements may communicate a business’s commitment to high standards. For example, always conducting ethical behaviour (i.e. behaviour that is good or correct).

### Strategy
Some mission statements may outline how the business will try to achieve its main objective. For example, a car manufacturer may say it is committed to the development of driverless cars to help achieve its aim of making transport as easy and convenient as possible.

A good mission statement should help guide the decision making of the firm. Running a business can be very complicated. It is very easy to get lost in the small details of business decision making. A good mission statement makes it clear which direction a business should take by reminding the owners and directors why the business exists. Many people may argue that the only purpose of a business is to generate a profit for its owners. However, most employees would like to believe that they go to work to achieve something more than this. A mission statement makes this point.

There are two reasons why a business may create and share a mission statement. The first is to make a commitment to its customers. A mission statement expresses a promise to customers of what they can expect the business to aim for. Secondly, a mission statement can be used to bring a company’s workforce (i.e. all the people who work for a company) together with a shared purpose. Many successful businesses have a mission statement that their employees believe in. This is why a mission statement is important in forming a strong corporate culture (see Chapter 14).

Some mission statements are brief. Others are long and detailed. Some examples of mission statements are given below.

- **R&F Fitness Centre**: ‘We improve levels of fitness by providing individual plans for people of all ages and helping them to achieve their aims.’
- **R&B Furniture Maker**: ‘To help create practical and beautiful homes for our customers.’
- **DHC Coffee Shop**: ‘To offer a comfortable environment and an excellent range of coffee to refresh our customers in body, mind and spirit.’
DEVELOPMENT OF CORPORATE OBJECTIVES

Corporate objectives are objectives set by senior managers and directors for a company. They should be specific to the company, its particular history and vision of the future, and fit well with its mission statement. They should focus mainly on the desired performance and results of the business over time. They may include goals such as market share, profit levels, creation of new products or processes, resource usage and scale economies, management of people and ethical behaviours.

To help a business achieve its aims, corporate objectives must be Specific, Measurable, Agreed, Realistic and Time specific. These criteria are known as SMART criteria. An example of a SMART objective for a corporation might be to increase global market share from 10 to 13 per cent in the next two years.

- **Specific** means that the objective clearly states what the business is aiming to achieve. It should refer to a particular aspect or function of the business.
- **Measurable** involves evidence to demonstrate whether or not the objectives have actually been achieved. For this reason, most corporate objectives will have a financial or quantifiable element (i.e. an element that can be expressed by a number). This is because it makes it easier to measure the success of that objective.
- **Agreed** implies that everyone responsible for achieving the objective is happy with the objective and understands what it means for them. Without an objective being agreed by all those involved, there will be no motivation or commitment to achieve it.
- **Realistic** ensures that the objective can be met given the resources available and the current market conditions. If an objective is unrealistic, people may begin to ignore it. This means that the objective will not be achieved. This is likely to have a negative impact on the business.
- **Time specific** gives the stated time frame required to achieve the objectives. All objectives must have a deadline to ensure urgency and a point at which the objective can be assessed.

ACTIVITY 1

**WRITING A MISSION STATEMENT**

Choose one of the industries listed below and plan a mission statement for a business in that sector. Use some of the examples for inspiration but try to link your mission statement to the context of the industry. Present your mission statement and explain your thinking. How does it express the vision and aims of the business you have chosen?

1. Airline industry
2. Soft drinks industry
3. Container shipping industry
DEPARTMENTAL AND FUNCTIONAL OBJECTIVES

We now know that general objectives come from the mission statement of a business. Once we have established the general objectives, we can then develop more specific corporate objectives that explain exactly what the business does. These help to inform even more departmental and functional objectives. These set the daily goals that may include human resources, finance, operations, logistics and marketing. These all refer back up the hierarchy to the corporate objectives and mission statement, so that the goals and activities of the business are consistent. In this way, functional objectives will directly support the corporate objectives. Business functions should be aligned with one another because they are guided by these corporate objectives. For example, if the operations department sets a departmental objective to reduce waste by 25 per cent within the next year, it is likely that this will have to feed into the objectives set by the human resources (HR) department. HR will need to ensure all production workers complete a specific training programme focusing on quality management (see Student Book 1, Chapter 40).

THE OBJECTIVES HIERARCHY

An objective will ultimately flow from the firm’s overall aim and be effective if it contributes to achieving the level above.

THE DIFFERENCE BETWEEN SMALL AND LARGE FIRMS

Chapter 1 in Student Book 1 explores the possible objectives that may motivate a business. Usually, a business aims to make a profit. However, it may have other goals as well, such as:

- maximising sales, sales revenue or market share
- achieving cost efficiencies
- looking after its employees
- ensuring that its customers are satisfied.

A business may even aim to achieve a social purpose. An objective is a desired outcome that allows a business to achieve its stated aims. While some objectives are general, others can be very specific. This includes the quantification (i.e. expressing something as a number) or precise statement of a goal for a department or functional area.

Small businesses may have a wide variety of objectives, such as the following examples:

- to ensure that the company breaks even at the end of the tax year (see Student Book 1, Chapter 31)
- to improve the firm’s liquidity in the next six months (see Student Book 1, Chapter 35)
- to increase sales by 10 per cent over the next three years (see Student Book 1, Chapter 30)
- to increase pre-tax profits by 5 per cent over the next 12 months (see Student Book 1, Chapter 34)
- to hire five new staff with skills in sales and marketing and build a strong marketing department over the next year
- to reduce energy consumption by 2 per cent and cut the use of non-recyclable packaging over the next three years.

By contrast, the objectives of large firms and multinationals tend to be mostly financial. This is because they have many stakeholders to satisfy (mainly the shareholders). Financial objectives are more objective and quantifiable. Therefore, they are easier to communicate to a wide variety of interested parties. For example, a supermarket chain such as Carrefour® might state an objective that covers its entire operation: ‘To increase market share by 5 per cent over the next two years.’

CASE STUDY: FORD

Ford® is a USA-based multinational automobile manufacturer. It was founded by Henry Ford in 1903 and is now one of the biggest car makers in the world. In 2016 it employed over 200,000 people across the globe and generated a revenue of $US141.5 billion.

Ford’s mission statement emphasises the need for its employees to work together efficiently to achieve automotive and mobility leadership for customers.

Ford is committed to the development of electric vehicles (EVs) and automated vehicles like many automobile companies around the world. In the 2016 annual report and accounts the president and CEO of Ford, Mark Field, outlined some corporate objectives...
relating to this development. Two of these are summarised below.

- Over the next five years, we'll create 13 electrified vehicles. These will include a fully electric SUV (Sport Utility Vehicle) that will deliver a range of around 300 miles, and hybrids of the F-150 and Mustang.
- We intend to make an SAE level 4 fully autonomous vehicle (i.e. no steering wheel, brake or gas pedal) by 2021.

For example, a company with a mission statement that includes respect and honesty would not be supported if there were reports of fraud in a business.

Many organisations may have a mission statement that is appealing to its customers. However, if it is not believed and followed by employees, then customers may soon lose faith in the business. On any corporate website, you will find objectives relating to corporate social responsibility (CSR), ethical behaviours and sustainable business growth. However, businesses may need to consider the balance of the appeal of some of these objectives to their customers. This is especially true if the organisation is not achieving a profit for shareholders.

A critical reassessment (i.e. assessing what is good and bad about something) should involve an appraisal (i.e. a judgement of the value) of the following.

- What is the purpose of the mission statement?
- What audience is it intended for?
- How does the business strategy fit in with its stated mission?
- Are the aims and objectives realistic and achievable?

**ACTIVITY 3**

**CRITICAL APPRAISAL OF MISSION STATEMENTS AND CORPORATE AIMS**

Some argue that mission statements are a little unrealistic and too optimistic. As a result, this may have a negative impact on employees. For example, employees may become demotivated because they know that the mission cannot be achieved. Also, unrealistic mission statements are not useful to anybody. Therefore, they are a waste of management time. They may also be vague and appear insincere, which might cause stakeholders to see the statement as just a marketing tool or a slogan.

This means mission statements must be constantly assessed to ensure they have continued relevance for the business. Sometimes, they are not appropriate.

1 How could the functional objectives of Ford's marketing department support the 2016 corporate objectives stated above?
2 How might the objectives of large firms, such as Ford, and those of small firms differ?
1 CORPORATE OBJECTIVES

Suggest two corporate objectives that a confectionery manufacturer might set.

What is the difference between a functional objective and a corporate objective?

Why should objectives be SMART?

Why might corporate objectives mainly be expressed as financial objectives?

What is the purpose of a mission statement?

State three areas of business activity that corporate objectives might refer to.

Most large businesses identify various corporate objectives that cover a range of issues and areas of the business. These range from objectives focusing on profitability to corporate social responsibility. For example, see the list of corporate objectives below for LPW car rental company.

- Customer loyalty: We conduct business in an honourable and transparent way that develops customer loyalty and respect.
- Growth: We target new opportunities and ideas to encourage and extend high performance.
- Profit: We deliver high returns for our shareholders through achieving our objectives.
- Market leadership: We provide excellent service and trusted products, continually innovating to lead provision for changing customer needs.
- Commitment to employees: We are committed to open and supportive teamwork, providing honest feedback and rewarding employee achievement.
- Leadership capability: We encourage leadership qualities at all levels, developing career opportunities for those who achieve business results. We enhance individual potential to lead to growth and profitability.
- Sustainability: We research, adopt and promote best working practices that help protect the environment. We contribute to local and global environmental sustainability as part of our charitable giving.

Most large businesses state their corporate objectives on their websites. How SMART are the objectives shown on a company website be more general than those discussed around the boardroom table?

It is common for a business to have a number of objectives that cover a lot of areas. As a result, these objectives may sometimes conflict with each other. So, the achievement of one objective can prevent a business achieving another. For example, providing rewards for staff performance could reduce financial profit. This may be the same for environmental objectives. Although it is attractive to promote a company as an ethical business, the development of technologies and strategies to ensure environmental compliance could lead to the company not achieving its financial objectives.

When analysing a case study, always try to identify the business’s objectives. If a business achieves its objectives, then it is a successful business. Remember that not all objectives are as important as one another. Therefore, by prioritising an objective with a clear justification (i.e. a good reason), you can provide the basis for a recommendation when answering a question. For example, if you can justify that the objective to ‘develop leaders at all levels’ is the most important, then this helps you justify a decision to invest in a new employee training programme.

Evaluation is about picking out the key issues facing a business. Therefore, if you can argue that a certain course of action will support a business in achieving its objectives, then you have a strong point of evaluation.

SUBJECT VOCABULARY

break-even when a business generates just enough revenue to cover its total costs

corporate aim the specific goal a corporation hopes to achieve. For example, to become market leader

corporate objectives the objectives of a medium to large-sized business as a whole
departmental and functional objectives the objectives of a department within a business
hierarchy the order or levels of responsibility in an organisation, from the lowest to the highest
mission statement a brief statement written by the business, describing its purpose and objectives, designed to cover its present operations
objective (or goal) a target of, or outcome for, a business that allows it to achieve its aims
shareholder somebody who owns shares (i.e. one of the parts a company is divided into) in a company or business
SMART acronym for the attributes of a good objective: Specific, Measurable, Agreed, Realistic and Time specific
stakeholder somebody who has invested money in a business or has an important connection with it. They are therefore affected by the success or failure of the business
vision a view of what the corporation wants to be like in the future
LEGO® is the world’s largest toy manufacturer, making a toy that is highly popular with children. LEGO’s mission is ‘to inspire and develop the builders of tomorrow’. In Danish, the word ‘LEGO’ is an abbreviation meaning ‘play well’. This unique value is at the centre of what the company does to change the way people understand learning. It focuses on the huge role play has in helping children to learn essential (i.e. extremely important and necessary) skills for life in the twenty-first century.

In 2013, LEGO assessed the needs and attitudes of its stakeholders through an online survey of more than 1500 participants. They interviewed almost 1500 additional participants from their most significant stakeholder groups and industry associates. LEGO found that the following three issues were the most important:

- the safety and quality of their products
- supporting children’s right to develop
- communication with children.

In 2014, a letter to the company employees from the Chief Executive Officer, Jørgen Vig Knudstorp, said that LEGO should continue to work very hard to be the best. He said that 2014 was a good year but ‘there was also room for improvement’. As part of the LEGO Group Responsibility Report 2014, the company analysed its performance against a set of corporate objectives that were defined in 2009. These were:

- zero product recalls – always
- to be ranked in the Top 10 companies for employee safety by 2015
- to support learning for 101 million children by 2015
- to use 100 per cent renewable energy by 2020
- to adopt a zero-waste mindset.

The LEGO Group believes in transparency. It always tries to provide a very honest assessment of its performance against specific targets. The 2014 report highlighted a number of targets related to its corporate objectives.

LEGO now plans to expand overseas with the opening of offices in Malaysia and China. LEGO still has a relatively small market share of the toy market in Asia compared to Europe and North America. However, as countries such as Malaysia and China become wealthier, so will consumers’ willingness and ability to purchase LEGO products.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Zero product recalls</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Score of +10 for employee satisfaction and motivation</td>
<td>+14</td>
</tr>
<tr>
<td>3</td>
<td>101 million children educated</td>
<td>95.4 million</td>
</tr>
<tr>
<td>4</td>
<td>+10 per cent improvement in energy efficiency by 2016</td>
<td>+9%</td>
</tr>
<tr>
<td>5</td>
<td>90 per cent of waste recycled</td>
<td>91%</td>
</tr>
</tbody>
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**Table 1 LEGO Group targets linked to corporate objectives**

1. Define the term ‘corporate objective’. (2 marks)
2. Explain one reason LEGO might have for setting an objective to achieve 100 per cent renewable energy by 2020. (4 marks)
3. Explain one possible reason why LEGO might have a mission statement. (4 marks)
4. Assess which of the LEGO Group’s corporate objectives is the most important for the long-term success of the business. (12 marks)