

# Objectives of Firms

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Divya Kishore

22 July 2020

# Introduction

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- All business firms have undoubtedly some organizational goals to pursue. The traditional Economic theory assumed profit maximization as the sole objective of a firm. But the modern economist define the other objectives of Firms.
- 1) Profit Maximization
- 2) Sales or revenue maximization
- 3) Growth Maximization



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- **4) Maximization of satisfaction**
  - **5) Maximization of Managerial Utility**
  - **6) Satisficing theory**
  - **7) Cyert & March behavioral theory**
  - **8) Entry prevention & risk avoidance**

# 1) Profit Maximization

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- The sole objective of a firm in the traditional theory of firm has been profit maximization.
- Conditions for maximizing profit –
  - (1)  $MC = MR$  and
  - (2)  $MC$  should cut  $MR$  from below.

## 2) Baumol's Sales/ revenue maximization

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- The basic premise of his theory is sales maximization rather than profit maximization.
- Manager pursue those goals which furthers their interest.
- Salary and other management emoluments are more closely related to sales revenue than to profit
- Bankers and other financial institutions look at sales revenue for credibility.



# 3) Growth Maximization

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- The main goal of firm is the balanced rate of growth of the firm.
- Ability of managers judge by growth of firm.
- Managers try to maximize firm's balanced growth rate subject to Managerial and financial constraints.

## 4) Maximization of satisfaction

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- According to Scitovsky, the satisfaction of an entrepreneur does not depend only upon the material goods, but in the forms of comfort and necessities obtained from profits due to his entrepreneurial activity.
- It includes the leisure or what Hicks calls a 'quiet life' also as an essential ingredient to individual welfare.

## 5) Maximization of Managerial Utility or Discretion

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- This theory is developed by Williamson.
- Managers seek to maximize their own utility function subject to minimum level of profit.
- This managers are interested not only in their own emoluments but also in the size of their staff and expenditure on them.



## 6) Satisficing theory

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- It was propounded by Herbert Simon.
- Satisficing means satisfactory overall performance.
- Firms wishes to attain satisfactory level of production, to attain satisfactory share market, to attain a satisfactory level of profit and so on.
- Firm is Satisficing organization rather than profit maximizing entrepreneur.

# 7) Cyert & March behavioral Theory

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- It has been propounded by Cyert and March.
- Cyert and March regard the modern business firms as a complex organization in which the decision-making process should be analysed in variables that affect organisational goals, expectations and choices.
- They look at the firm as an organisational coalition of managers, workers, shareholders, suppliers, customers, and so on.



## 8) Entry prevention and risk avoidance

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- Another objective is to prevent Entry of new firms into the industry.
- The motive behind entry prevention may be:
  - A) profit maximization in long run
  - B) securing constant market share
  - C) avoidance of risk caused by unpredictable behavior of new firms.

Thank You!

