THE OBJECTIVES OF A FIRM

BY DR. SHIRO ABASS

LEARNING OUTCOMES

To understand the various objectives of a business firm such as

1. Profit maximization objective
2. Shareholders wealth maximization objective
3. Satisfaction objective
4. Social responsibility objective
5. Survival objective
6. Increase in market share objective

1.PROFIT MAXIMIZATION OBJECTIVE

- This is regarded as the primary objective of a firm development in the early 19th century when the feature of a firm was sole proprietorship and self-financing.

PROFIT MAXIMIZATION OBJECTIVE

- **To maximize profit, Business firm must maximize its revenue generated from sales of its output while minimizing the cost of producing such level of output.**

PROFIT MAXIMIZATION OBJECTIVE

- **Profit maximization is very easy to measure as an objective since it require that a firm must be sufficient in its use of resources and focuses its effort towards making money**

PROFIT MAXIMIZATION OBJECTIVE

- **Profit maximization objective has been attacked by all and sundries because of the following reasons:**
- **Profit maximization objective does not recognize time value of money concept.**

PROFIT MAXIMIZATION OBJECTIVE

- **Profit maximization does not consider the effect of risk or uncertainty of future earning.**
- **Profit has no clear definition i.e. it doe not state clearly whether it is profit before tax or profit after tax or short term or long-term profit.**

PROFIT MAXIMIZATION OBJECTIVE

- It does not consider quality aspect of future activities of a firm.
- Profit maximization does not give all participants or interest group (customers, creditors, shareholders, government, employees, competitors e.t.c.) a satisfactory return for their inputs or efforts.

2. SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE

- **This concept has been widely accepted as the best means for maximizing the economic welfare of shareholders or firm.**

SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE

Wealth maximization simply means the maximization of Net Present value of a course of action in a firm or company.

SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE

- **The Net present Value of a course of action is defined as the different between Present Value of benefit of that action and the initial investment required to achieve those benefits.**

SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE

Shareholder wealth is determined by the market value of firm's Share. Thus, the shareholder wealth maximization simply implies that the financial objective of any firm should be to maximize the market value of its shares.

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The value of a firm's shares is determined by the price at which the shares trade in the market place such as Lagos Stock Exchange.

SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE

- **It must be noted that market price of a firm shares serves as a reflection of the firm's managerial decision such as investment decision, financing decision and dividend decision.**

SUPERIORITY OF SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE OVER PROFIT MAXIMIZATION OBECTIVE

- **It recognizes time value of money concept.**
- **It considers the effect of risk or uncertainty of future earning.**

SUPERIORITY OF SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE OVER PROFIT MAXIMIZATION OBECTIVE

- **It balances short and long term profit a way that Profit Maximization cannot.**
- **It considers quality aspect of future activities of a firm.**

SUPERIORITY OF SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE OVER PROFIT MAXIMIZATION OBECTIVE

- **It gives all participant or interest group (customers, creditors, shareholders, government, employees, competitors, company management etc) a satisfactory returns for their inputs or efforts.**

SUPERIORITY OF SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE OVER PROFIT MAXIMIZATION OBECTIVE

- **It serves as a yardstick for measuring the overall performance of a firm.**
- **A firm share performance in the stock markets has a direct relationship with shareholder wealth maximization.**

SUPERIORITY OF SHAREHOLDERS WEALTH MAXIMIZATION OBJECTIVE OVER PROFIT MAXIMIZATION OBECTIVE

- **It also serves as a best factor in wooing further investors into a firm.**
- **It provides appropriate and operational feasible criteria for Choosing between alternative courses of action.**

3. SATISFACTION OBJECTIVE

This is satisfaction of the various interest groups (customers, shareholders, government, employees, competitors and creditors) in modern day firm is a major factor that make a firm to grow or remain afloat. Note that the objective of the firm is said to be the attempt to give all participants a satisfactory returns for their inputs or efforts.

4. SOCIAL RESPONSIBILITIES OBJECTIVE

Most firm not only attempt to make more money but they also strive to improve the environment in which they operate by engaging in community development. (such as provision of rural electrification, pipe borne water, good road, hospital, scholarship and employment opportunities for the indigenous). Note that this objective enhances good business environment

5. SURVIVAL OBJECTIVE

In the recent economic downturn, this objective is the most important one which occupies the minds of modern firms management who believe in continuous staying in business than to make profit this year and pack up next year. It must be noted that keen competition coupled with level of inflation in our country make the pursuance of this objective crucial.

6. INCREASE IN MARKET SHARE

This entails capturing more of the market demand for their products or services in the industry, by this a firm strives to maintain its leadership position.

RECOMMENDED TEXTBOOK

PROBLEMS AND SOLUTION ON FINANCIAL MANAGEMENT BY DR SHIRO ABASS , CHAPTER ONE, PAGES 1- 11, WHICH IS AVAILABLE IN UNILAG BOOKSHOP