

## 1.7: Goals of Business

### Learning Objective

Differentiate among potential goals of a business.

### Key Points:

- Economic value added suggests that a principal challenge for a business is balancing the interests of parties affected by the business, interests that are sometimes in conflict with one another.
- Alternate definitions state that a business' principal purpose is to serve the interests of a larger group of stakeholders, including employees, customers, and even society as a whole.
- Many observers hold that concepts such as economic value added are useful in balancing profit-making objectives with other ends.
- Social progress is an emerging theme for businesses. It is integral for businesses to maintain high levels of social responsibility.

### Definitions of Key Terms

**Stakeholder:** A person or organization with a legitimate interest in a given situation, action, or enterprise.

**Corporation:** A group of individuals, created by law or under authority of law, having a continuous existence independent of the existences of its members, and powers and liabilities distinct from those of its members.

**Corporate Social Responsibility (CSR):** A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources.

## The Goals of a Business

### Profit Maximization

According to economist Milton Friedman, the main purpose of a business is to maximize profits for its owners, and in the case of a publicly-traded company, the stockholders are its owners. Others contend that a business's principal purpose is to serve the interests of a larger group of stakeholders, including employees, customers, and even society as a whole. Philosophers often assert that businesses should abide by some legal and social regulations. Anu Aga, ex-chairperson of Thermax Limited, once said, "We survive by breathing but we can't say we live to breathe. Likewise, making money is very important for a business to survive, but money alone cannot be the reason for business to exist".

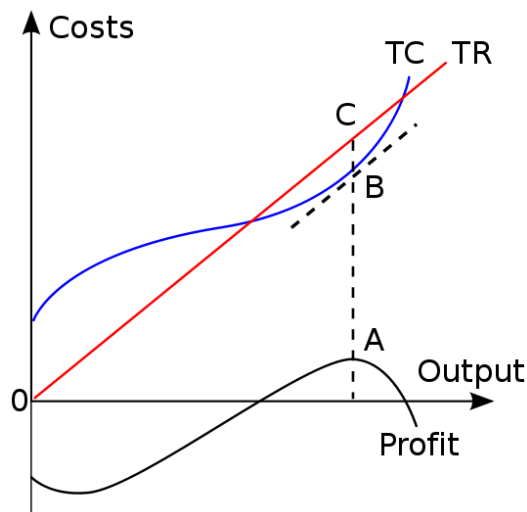


Figure 1.7.1: This chart depicts profit maximization using the totals approach, where TR = Total Revenue and TC = Total Cost. The profit-maximizing output level is represented as the one at which total revenue is the height of C and total cost is the height of B; the maximal profit is measured as CB. (Profit Maximization from What is a Business by Saylor, adapted from Boundless, CC BY-SA)

### Social Benefit

Many observers would hold that concepts such as economic value added are useful in balancing profit-making objectives with other ends. They argue that sustainable financial returns are not possible without taking into account the aspirations and interests of other stakeholders such as customers, employees, society and the environment. This concept is called corporate social responsibility (CSR).

This conception suggests that a principal challenge for a business is to balance the interests of parties affected by the business, interests that are sometimes in conflict with one another. Former President Bill Clinton stated adamantly that major multinational companies must put their customers and employees' interests before those of shareholders in order to promote economic development and growth, especially in emerging markets. For example, Alibaba, a Chinese Internet venture, strives to operate in the zone that Clinton calls "double-bottom line capitalism". The emerging new mantra is to create social progress as well as create profits. In a sense, corporate social responsibility highlights the fact that business, consumers and society are part of a shared ecosystem, and that the long-term health of this ecosystem must be maintained above all else.

### Innovation as a Goal

Rohit Kishore persuades that business can also be viewed to exist for the purpose of creative expansion. Successful firms like Google manage to align their activities towards the purpose of creative expansion from the perspective of all stakeholders, especially employees. This also validates the growing importance of innovation as a core principle for corporation survival and success.

### Contract Theory

Advocates of business contract theory believe that a business is a community of participants organized around a common purpose. These participants have legitimate interests in how the business is conducted and, therefore, they have legitimate rights over its affairs. Most contract theorists see the enterprise being run by employees and managers as a kind of representative democracy.

### Stakeholder Theory

Stakeholder theorists believe that people who have legitimate interests in a business also ought to have voice in how the business is run. However, stakeholder theorists take contract theory a step further, maintaining that people outside of the business enterprise ought to have a say in how the business operates. Thus, for example, consumers, even community members who could be affected by what the business does (for example, by the pollutants of a factory) ought to have some control over the business.

### Business as Property

Some people believe that a business is essentially someone's property, and, as such, that its owners have the right to dispose of it as they see fit (within the confines of the law and morality). They do not believe that workers or consumers have special rights over

the property, other than the right not to be harmed by its use without their consent. In this conception, workers voluntarily exchange their labor for wages from the business owner; they have no more right to tell the owner how he will dispose of his property than the owner has to tell them how to spend their wages. Similarly, assuming the business has purveyed its goods honestly and with full disclosure, consumers have no inherent rights to govern the business, which belongs to someone else.

People who subscribe to this view generally point out that a property owner's rights are constrained by morality. Thus, a homeowner cannot burn down his home and thereby jeopardize the entire neighborhood. Similarly, a business does not have an unlimited right to pollute the air in the manufacturing process.

### Examples

- America has surpassed Europe in revenue growth over time. However, social responsibility may also have a critical role in business operations, so American revenue growth should not be solely considered in corporate success.
- Stakeholder theorists believe that people who have legitimate interests in a business should influence its operation. Consumers, and even community members who could be affected by what the business does, ought to have some voice in the decision making.
- Advocates of business contract theory believe that a business is a community of participants organized around a common purpose. Contract theorists see the enterprise being run by employees and managers as a kind of representative democracy.

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