Growth through going global

Growth Through Going Global The traditional theory of the firm is based on the short-run profit maximization. Many actions of firms may be seen to conflict with this aim and yet could be consistent with the aim of long-run profit maximization. For example, policies to increase the size of the firm or the firm's share of the market may involve heavy advertising or low prices to the detriment of short-run profits. But if this results in the firm becoming larger, with a bigger share of the market, the resulting economic power may enable the firm to make larger profits in the long run.

In many respects, a firm's global strategy is simply an extension of its strategy within its own domestic market. However, opening up to global markets can provide an obvious means for a business to expand its markets and spread its risks. It is also a means of reducing costs, whether through economies of scale or from accessing cheap sources of supply or low-wage production facilities. A firm's global growth strategy may involve simply exporting or opening up factories abroad, or it may involve merging with businesses abroad or forming strategic alliances.

The result is that the global businessenvironmenthas tended to become more and more ompetitive. What will a growth-maximizing firm's price and output be? Unfortunately there is no simple formula for predicting this. In the short run, the firm may choose the profit maximizing price and output - so as to provide the greatest funds for investment. On the other hand, it may be prepared to sacrifice some short-term profits in order to mount an advertising campaign.

It all depends on the strategy it considers most suitable to achieve growth. In the long run, prediction is more difficult still. The policies that a firm adopts will depend crucially on the assessments of market opportunities made by managers. But this involves Judgment, not fine calculation. Different managers will Judge a situation differently. One prediction can be made. Growth-maximizing firms are likely to diversify into different products, especially as they approach the limits to expansion in existing markets.

It is difficult to draw firm conclusions about the public interest. In the case of sales revenue maximization, a higher output will be produced than under profit maximization, but the consumers will not necessarily benefit from lower prices, since more will be spent on advertising - costs that will be passed on to the consumer. In the case of growth and long-run profit maximization, there are many possible policies that a firm could pursue.

To the extent that a concern for the long run encourages firms to look to improved products, new products and new techniques, the consumer may benefit from such a concern. To the extent, however, that growth encourages a greater level of industrial concentration through merger; the consumer theory of the firm, the degree of competition a firm faces is a crucial factor in determining Just how responsive it will be to the wishes of the consumer. References: http://classofl . com/homework-help/economics-homework-help/