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Profit Maximization

It would be reasonable to say that profit maximization has been among the primary driving forces of any business activity. Evidently, while the classic approach indicates that companies should engage in business functions to create value for their shareholders, with the emergence of new theories, for instance, the one of corporate social responsibility, the narrative is starting to shift away from the vision of profit maximization as a critical business endeavor. To understand both perspectives on the matter, as well as synthesize information to make a viable claim, it is crucial to explore the role of profit maximization in business, investigate particular drawbacks of the approach, and determine the rising effect of corporate social responsibility on the traditional business model. In such regard, showing the essence of the profit maximization approach, as well as indicating its potential flaws, allows one to determine a new approach—one that will make business serve a more socially appealing purpose, rather than having a solemn focus on creating profits alone. As a result, it is essential to present the profit maximization model as the driving force of business and show the importance of corporate social responsibility to face the drawbacks of the traditional model.

The profit maximization model is based upon the fundamental premise that a company makes a profit when its total revenue surpasses the total costs of its functions. In such a context, profit maximization is the process occurring when there is the most significant gap between total revenue and total costs. To illustrate the principle, one should appeal to the following variables: the one of marginal revenue (MR) as well as the one of marginal cost (MC) (Pettinger). Referring to the illustration, a company can maximize its profits when it produces an output making marginal revenue equal to marginal costs (see Figure I).

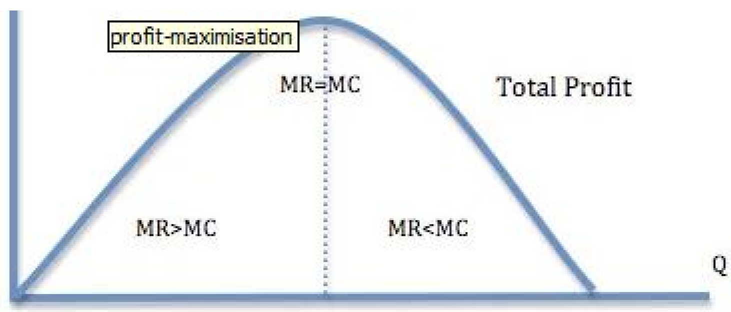

Figure I

The model illustrated above emerged from the perception of profit maximization as the core of the shareholder-wealth-maximization principle. In fact, according to the principle, the dominant approach is about increasing shareholder wealth—something that was used as a rationale for business functions for centuries. In the words of prominent economist Milton Friedman, managers as agents of shareholder should "conduct the business by their desires, which will generally be to make as much money as possible while conforming to the basic rules of the society" (Kothari). It such regard, one should understand that the core argumentation favoring such a principle stems from the initial premise that resources of a society are scarce. As a result of such scarcity, the resources should be directed toward higher net-value business activities. Based on a simple principle, profit maximization is about determining the value of business functions referring to subtracting the price of resources utilized for this function along with comparing the revenue generated by this function (Kothari). While the approach dominated the business activities of the majority of firms for decades, it seems that market changes require shifting the focus of business activities. Importantly, the system requires a paradigmatic shift based on the fact that current business practices were found not to adhere to existing legislation as well as the norms of ethical conduct.

Specifically, the limitations of profit maximization often stem from the fact that its core principles do not correlate with aspects of long-term profitability, the creation of value, and environmental preservation. In such a context, while the model is effective in making short-term financial returns, it can lessen business earning in the long-run. For instance, when the principle of profit maximization dictates a firm to attribute all of its available resources and inventory toward satisfying the immediate needs of a particular customer, a company risks alienating long-term consumers—ones that are both not as demanding as well as established as a relationship of trust and loyalty (Gartenstein). In other words, profit maximization makes it difficult to perceive how business functions will develop in the long-run. Sometimes, executives should make a decision that will profit a company in perspective rather than immediately. One can say that in such regard, profit maximization is a short-sighted model.

Another limitation is about preferring profits to values. When a firm is driven by the approach of maximizing financial value for its shareholders, a company's executives often can engage in business activities that counter ethical values and rules of corporate conduct

(Gartenstein). For instance, firms like *Enron*, the one that appealed to criminal activities to maximize profits for its executives. Similarly, profit maximization can adversely affect a company's values and make its products and services lower in terms of quality. Finally, maximizing profits often correlates to exploiting employees and the environment. Specifically, when seeking maximum benefits, a firm can make employees work harder without any extra pay (Gartenstein). Seeking profit maximization, a company can use materials that are deemed as harmful to the environment. The primary motive in such regard will be using materials that are cheaper. As a result, there is a particular limitation of profit maximization that makes the model less appealing in terms of its correlation to the common good.

Speaking about the modern perspective on profit maximization and pondering on ways that can make the approach more beneficial, it is important to mention the concept of corporate social responsibility (CSR). Interestingly, experts argue that the most pressing issue of current corporate culture is about the correlation of the principle of profit maximization with the notion of corporate social responsibility (Dadson 697). To understand how the idea of corporate social responsibility can assist in mitigating the limitation of profit maximization approach, it is crucial to explore the essence of the concept. From a broad perspective, CSR is a particular mode of vision—one that focuses on corporate accountability to an array of stakeholders, including shareholders, customers, employees, civil society, communities, and environmental protection (Dadson 697). Importantly, CSR is about integrating a particular self-regulating mechanism within business functions. Such an instrument will be directed toward fostering corporate adherence to existing legislation, norms of international communities, and standards of ethical conduct both among employees and executives (Dadson 697). One can say that CSR is about regulating business, thus making firms allocate their resources not only toward maximization but also about making sustainable business practices contributing to the common good. With CSR integrated within a model of profit maximization, companies will both create value for their shareholders and ensure that no harm is done to corporate values, stakeholders, and the environment. While some may find such an approach idealistic, current examples are showing that the model functions appropriately. For instance, companies like *Wal-Mart* and *AXA Group*, the ones among the first to integrate CSR into their business activities, showed that it is possible to both increase profits and have a strong focus on social responsibility (Dadson 705-707). In fact, the corporate social responsibility approach functions not only in theory but in practice as well. The companies mentioned above managed to take the classical business model and adapt it to the needs of the current century, focusing on contributions to social good as more important than an increased wealth of particular shareholders.

The model of profit maximization has dominated the business realm for centuries. There is a definite perspective on business functions as something that should be directed toward maximizing the creation of value for shareholders. Driven by the premise of resource scarcity, firms valued activities that created the most net-value in the shortest terms possible. However, evidence shows that such an approach can be problematic from at least three perspectives—namely, starting from the fact that profit maximization can be damaging in the long-run, as the approach can often disrupt values embedded into corporate culture, having adverse effects on the quality of products and services, the overall suggestion is that the classical method should be modified. In such a context, the concept of corporate social responsibility is the best candidate to make profit maximization both a benefit to society and shareholders. A business should not only be about profits but profits that contribute to the common good.

Works Cited

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