How may a firm sacrifice short term profit for long run profit maximisation?

1) Growth- mergers and takeovers, firms may be willing to lowere profit levels to increase in size and gain more market share

2) investment e.g. in machinery, new capacity etc to enable higher productivity and higher future profits

3) Predatory Prices- to out compete rivals

What is meant by profit satisficing?

Firms seek to achieve a satisfactory level for several objectives e.g. they may buy fair trade products at a higher price rather that at the lowest cost

There is often a separation of ownership and control. Owners and shareholders may want to maximise profit, whereas managers have less incentive for this.

Managers may 'satisfice' by setting minimum profit levels to keep the shareholders happy, but maximise other objectives such as work morale.

How can the problem of 'satisficing' be overcome?

Give managers share opportunities/Performance related pay