

Traditional view of the firm is seeing it as a 'black box' where the input (labor, technology) is used in the most efficient way. Then the production process comes where we have no internal view. Last is the output.

INPUTS → BLACK BOX → OUTPUTS.

Regardless of the type of production and how it is processed, every firm's objective is to maximize profit (where $MC=MR$ at point of the output). However, there is a criticism of the traditional theory. Critics say it is unrealistic because firms cannot tell when MC will equal MR . That is why; they do not use this concept. But they can use the concept of TC and TR and maximize profit if they find the output where $TC=TR$. Another criticism of the traditional view is that firms cannot measure true profits because the accountants' concepts are not based on opportunity cost so here, only by chance profit maximization can be reached. There is a time-period problem as well with that theory. As there are changes in environment (from inside and outside), the demand and supply curves change also. So the firms cannot know the exact right time to seek profit maximization. From this criticism alternative views appear. They take into consideration the principal-agent theory (where the principal is the owner and the agent is the manager of a firm) and state that a firm has different objectives from profit max. As the firms are growing, owners are no longer managers of their own companies. This may lead to the owner-manager dichotomy/divorce where there might be a problem between ownership and control and 'the span of control' widens so the owner may not be able to exercise enough control over the managers. Then, managers may have different goals from that of the owner.

Firstly, when a satisfactory level of profit is achieved, managers are free to pursue their own interests with the aim of increasing their utility. This theory is known as Managerial Utility Maximization developed by Williamson. He outlines a number of factors that influence managers' utility- salary, status, job security, power etc. The formula of his theory is as such: $U=U(S, M, \text{Profit})$ where S is staff expenditure, M is expenditure on managerial benefits (such as a company car) and Profit is the Net Profit.

