

# This Week's Citation Classic

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Baumol W J. *Business behavior, value and growth*. New York: Macmillan, 1959. 164 p.  
[Princeton University, Princeton, NJ]

In standard models the sole objective of the business firm is profit maximization. But evidence suggests businesspeople pursue other objectives, including sales volume and growth. This book shows how such alternative models are constructed and analyzed and yield behavioral theorems relevant for theory and practice. [The *Social Sciences Citation Index*<sup>®</sup> (SSCI<sup>®</sup>) indicates that this book has been cited over 370 times since 1966.]

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"When initially serving as a consultant to business firms on problems upon which economic theory promised to shed some light, my training in standard analysis led to recommendations based on the hypothesis that the businessperson's only goal in life is to earn the most profits. However, when the recommendations received only a mixed reception, I was forced to rethink matters. For example, when it was pointed out to a firm that certain segments of its business demonstrably cut into profits and were likely to do so for the indefinite future, I expected the management to rejoice at this opportunity to increase profits by eliminating the unremunerative portion of sales. Though many of my recommendations were received with some degree of en-

thusiasm, the sort of proposal just described only elicited an embarrassing silence.

"It soon became clear that management often valued an increased scale of activity as an end in itself, whether or not it increased profits or even if it involved a limited sacrifice of earnings.

"This led me to inquire why classical economic models assumed profits were the firm's only goal. Obviously, there is nothing inherently 'irrational' about the choice of alternative objectives. It became clear that the profit maximization premise had been selected by economists because it was so tractable analytically and yielded so many fruitful theorems. Indeed, other economists had previously produced empirical evidence suggesting that businesses have other aims,<sup>1</sup> but they were apparently unable to construct rigorous and tractable models corresponding to this evidence.

"I therefore devoted myself to the construction of such alternative models and after the usual period of frustrations and blind alleys, finally came up with what has since come to be called the 'sales maximization' model. This has subsequently served as a prototype for still other constructs by other economists<sup>2,3</sup> which have contributed to our understanding of the way in which firms actually work and has enabled economists to improve the advice they offer to industry.

"No doubt, the ease with which the analysis lent itself to modification, the opportunities it offered for empirical testing, and the new range of insights it offered account for the frequency with which the work has been cited."<sup>4</sup>

1. Lanzillotti R F. Pricing objectives in large companies. *Amer. Econ. Rev.* 48:921-40, 1958.
2. Williamson O E. *The economics of discretionary behavior: managerial objectives in a theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall, 1964. 182 p.
3. Marris R. *The economic theory of managerial capitalism*. London: Macmillan, 1964. 346 p.
4. Williamson O E. The modern corporation: origins, evolution, attributes. *J. Econ. Lit.* 19:1537-68, 1981.