BUSINESS OBJECTIVES

Student's Name

Code + Course Name

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University Name

City, State

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Introduction

Small businesses are often thought of as the backbone of the economy, and as such, economic theories can help small business owners maximize their profits, growth, and other objectives (Ribeiro-Soriano, 2017). However, the motivation behind starting and running a small business is not always clear as set out in a firm's mission statement. This report will discuss the economic theories and real-world implications of small business owners' objectives and conclude by summarizing the findings.

Economic Theories

One economic theory related to this goal is the Theory of the Firm, which explains how firms can maximize their profits by optimizing their production outputs. The theory suggests that firms should produce the quantity of output that will yield the highest profits, by taking into account the costs of producing the output, the price of the output, and the level of demand for the output (Lemma, 2020). The theory can help business owners understand how to optimize their production activities in order to maximize their profits.

Another economic theory related to maximizing profits, growth, and other objectives is the Theory of Monopoly. This theory explains how firms can gain a competitive advantage by having exclusive control over the production and distribution of a good or service (The Economist, 2017). The theory suggests that firms can maximize their profits by controlling the market and setting prices that will yield the highest returns. This theory can help small business owners understand how to use their market power to maximize their profits.

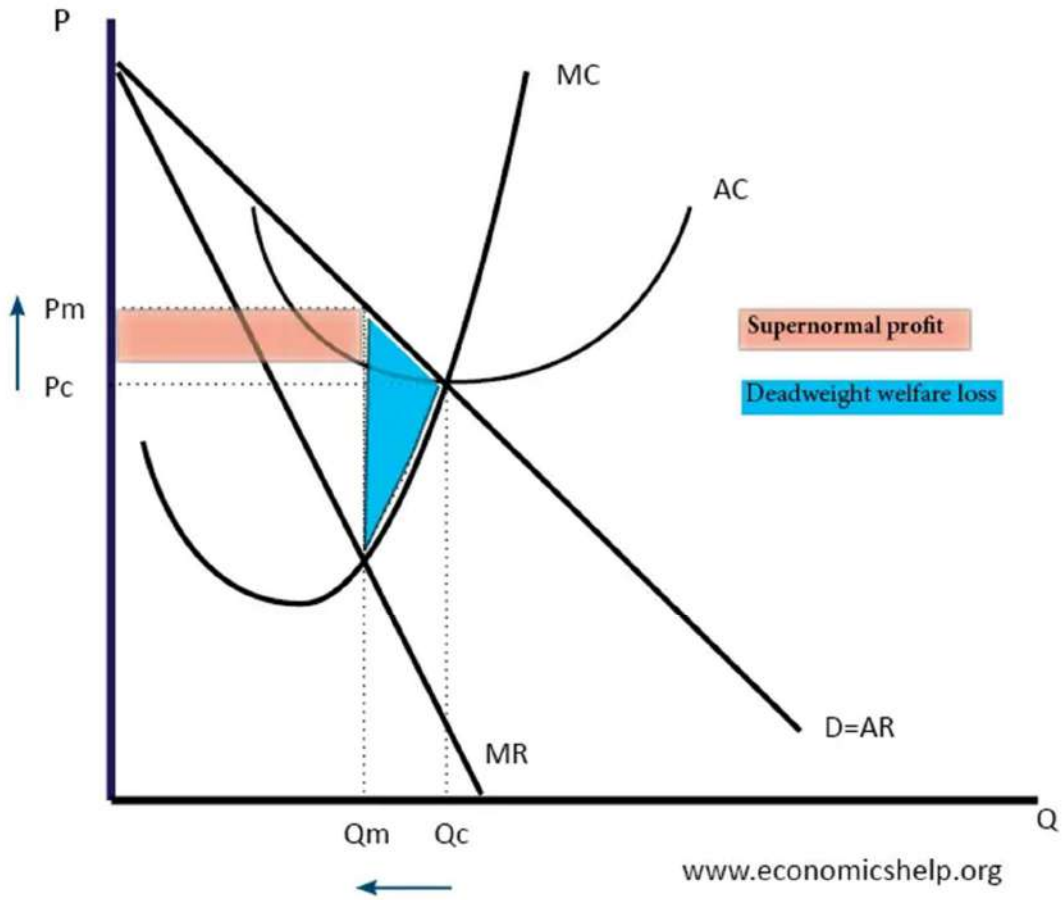

Figure 1: Monopoly in Market Share

Finally, the Theory of Market Structure is another important economic theory related to maximizing profits, growth, and other objectives. This theory explains how firms can gain an advantage in the marketplace by understanding the different types of market structures, such as monopolies, oligopolies, duopolies, and perfect competition (Khan Academy, 2020). The theory suggests that firms can maximize their profits by understanding the type of market structure they are operating in, and taking advantage of any opportunities that the structure presents. This theory can help business owners understand how to best structure their operations to gain a competitive advantage and maximize their profits. In summary, there are several economic theories related to maximizing profits, growth, and other objectives for small businesses.

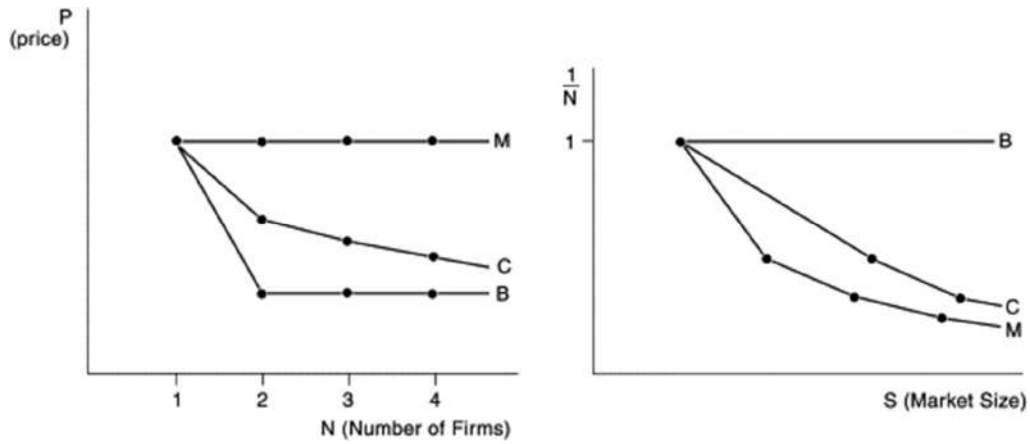

Figure 2: Market Structure

The Theory of the Firm explains how firms can optimize their production outputs to maximize profits. The Theory of Monopoly explains how firms can gain a competitive advantage by having exclusive control over the production and distribution of a good or service. The owners of small businesses are considered the drivers of economic growth in many countries (Kunaka and Moos, 2019). Therefore, most entrepreneurs start small businesses to maximize profits, while others may be motivated by the desire to achieve personal satisfaction, contribute to their community, or pursue other objectives.

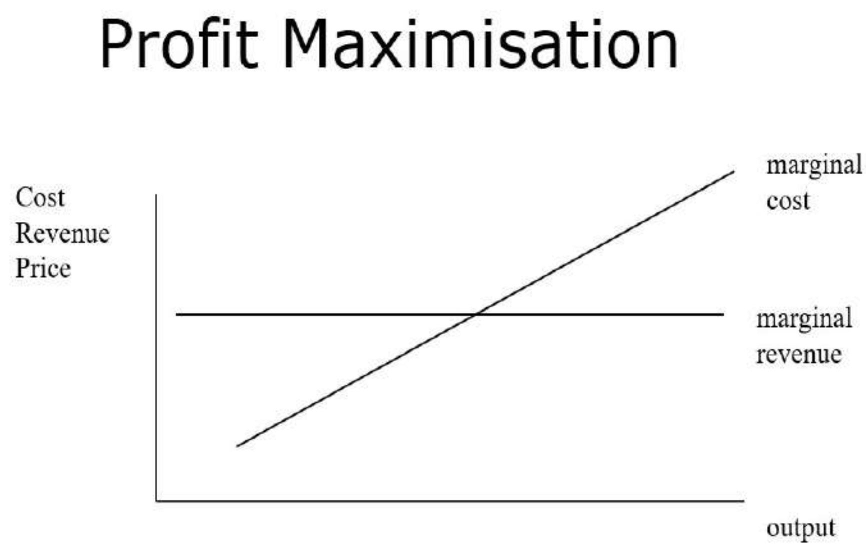

Figure 3: Profit Maximization Using Marginal Analysis (MR=MC)

Finally, the Theory of Market Structure explains how firms can gain an advantage by understanding the different types of market structures. Understanding and applying these theories can help small business owners maximize their profits, growth, and other objectives. The motivation behind starting and running a small business is not always clear as set out in a firm's mission statement. (Sloman et al., 2016).

Literature Review

Several studies have examined the objectives of small business owners. Kunaka and Moos (2019) evaluated mentoring outcomes from the perspective of entrepreneurs and small business owners in South Africa. They found that small business owners sought to achieve various objectives beyond profit maximization; including developing their businesses, gaining market share, and creating employment opportunities. Mentoring can help small business owners achieve these objectives by providing guidance, support, and access to networks.

Turner and Endres (2017) examined strategies for enhancing small business owners' success rates in the United States. They found that small business owners often prioritize growth over profitability, believing that growth can lead to long-term success and stability. The authors recommend that small business owners focus on building a strong foundation, creating a unique value proposition, and developing a strategic plan to achieve sustainable growth. Notwithstanding, Heikkilä et al. (2018) explored the relationship between strategic goals and business model innovation paths among small and medium-sized enterprises in Finland. They found that small business owners seek to achieve various strategic goals, including customer satisfaction, employee engagement, and corporate social responsibility. The authors suggest that small business owners can achieve these goals by adopting a flexible and adaptable business model that can respond to changing market conditions and customer needs.

Relevant Statistics

According to the Federation of Small Businesses, there were 5.9 million small businesses in the UK in 2020, accounting for 99.3% of all private sector businesses. These small businesses employed a total of 16.8 million people and had a combined turnover of £2.3 trillion. This demonstrates the significant contribution that small businesses make to the UK economy.

According to the UK Small Business Statistics report published by the Department for Business, Energy & Industrial Strategy in 2020, there were 5.9 million small businesses (with 0-49 employees) in the UK in 2019, accounting for 99.3% of all businesses. Small businesses employed 16.8 million people, which is equivalent to 61.2% of total private sector employment in the UK. The report also showed that small businesses generated £2.3 trillion in turnover, which is equivalent to 52% of all private sector turnover in the UK.

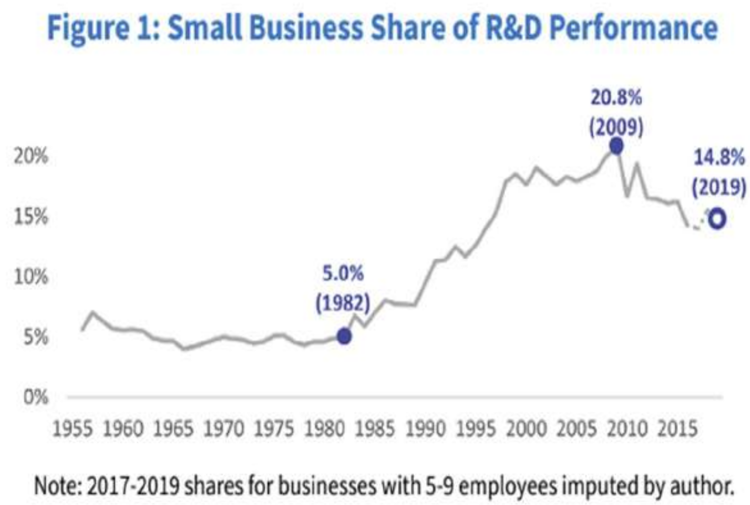

Figure 4*: small businesses' contribution to research and development (*Source: Small Business Administration)

While most of small businesses focus on maximizing profits, they lack the capital to fund their business processes including production of goods and services (Sloman et al., 2016). Firms with low number of employees are often denied loans, especially those with less than 10 employees as seen in figure 5 below:

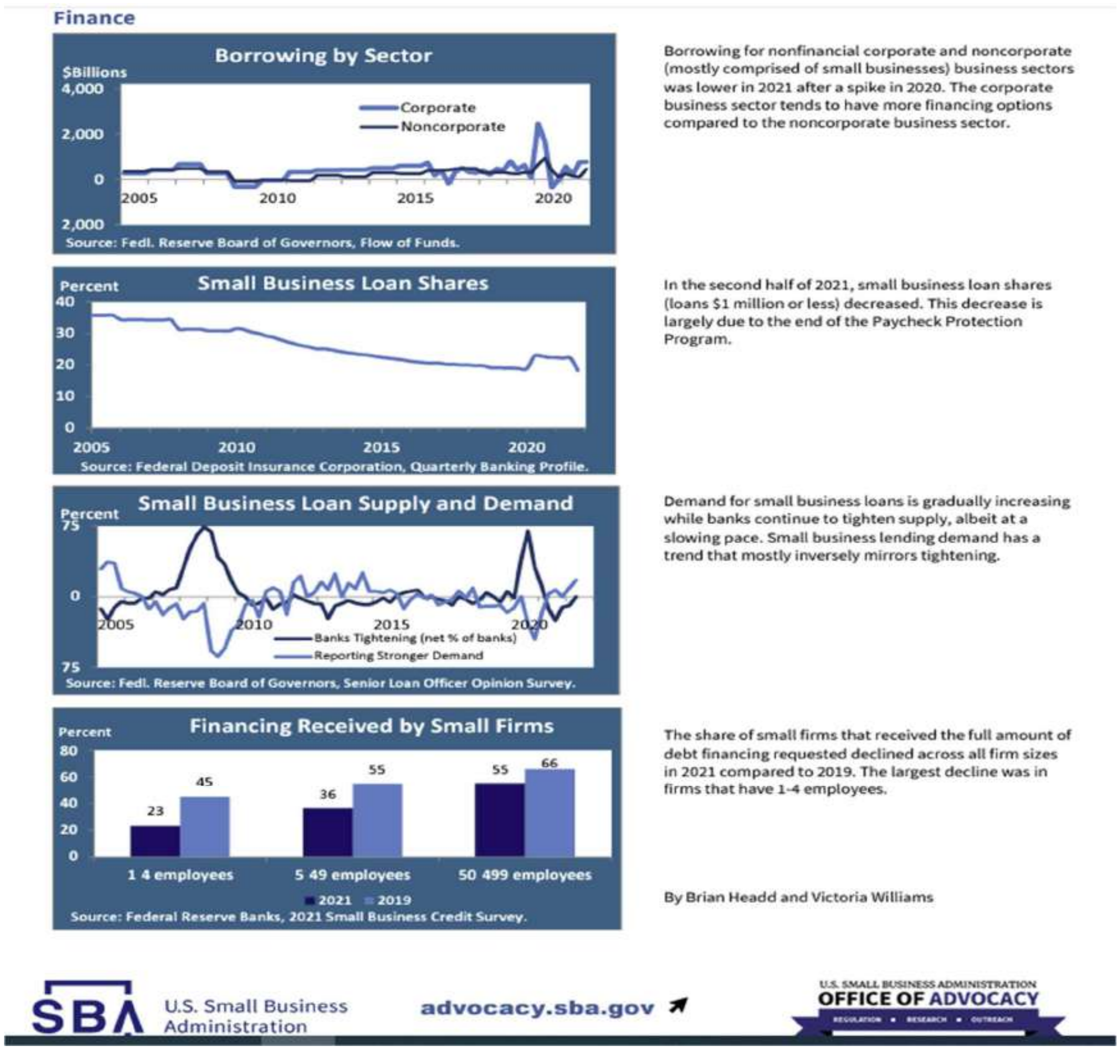

Figure 5: Small Businesses' Access to Loans (Source: Small Business Administration Spring Economic Bulletin

Real-world Implications

Small business owners face various challenges when setting and achieving business objectives. Maximizing profits is undoubtedly an important goal for most small businesses, but it is not the only goal. Small business owners often face a balancing act between financial goals and non-financial objectives like providing quality products or services, maintaining a positive company culture, and giving back to their community.

The choice of objective for small business owners has real-world implications. For example, small business owners who prioritize profit maximization may invest in cost-cutting measures that reduce the quality of their products or services, resulting in lower customer satisfaction and reduced market share (Beck, 2017). On the other hand, small business owners who prioritize sales maximization may invest in marketing and advertising campaigns that increase their brand awareness and customer base, but may not necessarily lead to higher profits.

The choice of objective can also affect the decision-making process for small business owners. For instance, small business owners who prioritize profit maximization may be more likely to invest in new technology or innovative products that have a higher potential for generating profits (Kunaka and Moos, 2019). In contrast, small business owners who prioritize sales maximization may be more likely to invest in expanding their product lines or entering new markets to increase their sales revenue.

The choice of objective can also be influenced by external factors like competition, industry trends, and government policies. For example, small businesses operating in a highly competitive industry may prioritize sales maximization to gain a larger market share, while small businesses operating in a niche market may prioritize profit maximization to maximize their profit margins (Turner and Endres, 2017). Government policies, such as tax incentives or regulations, can also influence the choice of objective for small business owners.

Heikkilä et al. (2018) argue that business model innovation is essential for the success of small businesses. Business model innovation involves exploring new ways to create customer value, such as offering new products or services, changing pricing structures, or developing new distribution channels. By innovating their business model, small business owners can differentiate themselves from competitors, create new revenue streams, and better meet the needs of their customers.

Conclusion

In conclusion, this report aimed to evaluate if the owners of small businesses seek to maximize profit, growth, or other objectives. Through a literature review, discussion of relevant theories and analysis of relevant statistics, it became apparent that small business owners pursue various objectives depending on their personal preferences, market conditions, and competitive environment. While profit maximization remains a crucial objective for many small businesses, it is not the only objective, and alternative economic theories such as the theory of the firm, the theory of monopoly, and the theory of market structure can provide valuable insights into the behavior of small business owners.

The review also revealed that small business owners prioritize different objectives based on various factors, including their values, motivations, and goals. Some small business owners aim to maximize profits, while others prioritize non-financial objectives such as employee satisfaction, customer loyalty, and social responsibility. Additionally, market conditions and the competitive environment can influence the objectives of small business owners. Small businesses operating in competitive markets may prioritize price and quality to differentiate themselves from competitors, while those in less competitive markets may prioritize profitability.

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