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# Methodological Approaches to the Identification of the Enterprise Model

*Elena Nikolaevna Chizhova and Igor Petrovich Medvedev*

Federal State budget educational institution of higher professional education
"Belgorod State Technological University named after V.G. Shukhov»,
308012, 46 Kostuykov str., Belgorod, Russia

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**Abstract:** Annotation.The review article describes the various methodological approaches to interpreting the behavior of enterprises. The traditional neoclassical model of enterprise is explored, analyses of behaviorist school are given. Particular attention is paid to the managerial concepts.

**Key words:** Barrier information · Marginal values · Profit maximization · Maximizing growth · Maximizing sales · Short period of time · The long-term period · The enterprise as the coalition · Potential objectives of the enterprise · The concept of a satisfactory minimum · Maximizing management utility function

## INTRODUCTION

In economics there are different directions of interpretation as an entity and models of behavior. It is clear that the manner of interpretation of the enterpriseactivity influencesthe forecasting the prospects for its development and performance management. The interpretation of the enterprise may be based on different methodological bases, reflecting the differences in subjective preference, theoretical approaches, researchers in various fields and carrying out his analysis at different levels of abstract thinking in different aspects. Therefore, the aim of this article is to present a spectrum of different approaches to modeling nature of the enterprise and their methodological soundness.

The following approaches and models of the enterprise are consideredas the neoclassical model of enterprises and the main aspects of its critics [1, 2], the behavioral model that originated from the theory of organization [3-6] and represented by various schools, some manager theories, among which the main attention is paid to the model of O.E. Willamson [7, 8].

## The Main Part

**Neoclassical Model of the Enterprise:** Micro-economic analysis of enterprises is based on traditional neoclassical theory. This theory assumes that enterprises maximize short-term profits and their behavior depends on the behavior of marginal values. This approach is a methodological criticism. In general, the focus of criticism of the neo-classical theory of the enterprise is that it is unrealistic, because it is based on the inaccuracy of the premises activities of enterprises and their relationships with the environment, the motives of the key decision makers, rules and decision-making procedures, etc.

Criticism of the traditional theory of the enterprise is directed on various aspects concerning the achievability of profit maximization in practice, critics of traditional theories argue as follows. Entrepreneurs can seek to maximize profit, but due to various reasons such a goal is not attainable. To substantiate this they claim cite this argument as the existence in the economic barrier to information practices. Firms use biased information and even if they're trying to maximize profits, this is not always achievable. The fact of the matter is that an information barrier makes it impossible for them to accurately estimate the costs of production, the definition of curves of demand for their products (and thus income curves), forecast changes in the environment, including the actions and reactions of competitors and other economic actors.

The problem of information isrelated to other criticisms of the traditional theory. There is, for example, that in reality, employers do not use in the calculations, with rare exceptions, limit values (equality marginal cost

**Corresponding Author:** Elena Nikolaevna Chizhova, Federal State Educational Institution, of Higher Professional Education, "Belgorod State Technological University named after V.G. Shukhov»

and marginal revenue). Critics often refer to the traditional theory, some empirical studies, which indicate that entrepreneurs in the pricing of their products are typically rule the overall costs. According to the traditional theory theenterprise respond to any, even slight changes in demand for its products or marginal production costs, adjusted appropriately price their products. At the same time, in fact, critics of such theory, insist that businesses change prices only when there are significant changes in average cost. They can only estimate how big are average costs of production at normal load capacity. Instead of comparing marginal costs and marginal profit, they set prices by adding to the average cost a particular size of profit.

In response to such arguments, supporters of traditional theories typically emphasize that there is not enough to abandon the assumption of profit maximization. Incomplete information and the difficulty of predicting the future, obviously, are the distinctive characteristics of reality. Such properties exist and there will be, no matter how economic theory formulates the main purpose of activity of the enterprise, or even waives its wording. The traditional theory was developed to explain, when using technologies and the application of any of the tools the company come to the adoption of certain decisions. But it helps to explain directions of reaction of an enterprise to the changes which touch it directly. If enterprises intend to maximize profit they act in such a way that can be foreseen by means of marginal analyses even if an entrepreneur apply calculation not coincided to that of mathematicians.

Supporters of the traditional theory often point to their opponents that their critics equate the desire to maximize profits and the actual achievement of profit in each case. The traditional theoryargue its supporters and only assumes that entrepreneurs usually want bigger profits. But the developers of this theory claim that the real profits are maximized. They are aware that in reality there are such businessmen for whom profit is not the most important motive in their activities and that for this reason, they bankrupt but there are also those who suffer bankruptcy, seeking only to profit.

Also the argument relating to the rule of the overall costs, is not convincing to proponents of traditional theory. They believe that their opponents are showing bias towards empirical research, i.e. refer only to those studies that support their arguments and neglect such that under certain conditions, usually full cost is changed in a direction corresponding to the profit maximization. Most important however is that the proponents of the rules of the overall costs usually do not explain why premium income to average costs in practice is highly differenced and can reach in some spheres of economic activity 8%, while in the other 30%. In this connection there was a view that in essence an approach based on the maximization of profit, is close enough to the approach based on the rule of full costs. According to this view, the existence of differences between the two approaches depends on the interpretation method for calculating profits. If we assume that the amount of the allowance is changed along with the change in market conditions in certain spheres of economic activity, the dispute between supporters and opponents of profit maximization is simply a dispute about the name of its subject matter. From this point of view, in principle, we agree with the P.A. Samuelson and W.D.Nordhaus, who claim that, in view of the difficulties in calculating the costs and limits of income firms assess the full cost rule similar to maximizing profits [9].

Some economists believe that the claim that the company maximizes profits in the long term, is more close to reality, than to maximize profit in the short term. This view is most often is that the business operations of enterprises, especially large ones, can reduce short-term profits and long-term growth of profits at the same time. For example, in order to increase the size of the enterprise or its market share, may be needed, such actions as, for example, a major (and expensive) advertising campaign or maintaining the prices at a low level. Although such actions may reduce short-term profit, but they can be conducive to the growth of its profits in the future. The idea of replacing background in the short-run profit maximization condition of profit maximization in the long run has both supporters and opponents. The first usually highlight the existing phenomenon of expansion in practice time horizon. This is particularly true for companies with long-term investment and production cycles and, in general, large companies, who have many years ahead to anticipate your income and expenses. Construction of large mines or shipyards would not make sense if the anticipated reimbursement of capital take place in the first quarter, or even in the first year of operation. Opponents, in turn, highlight the methodological problem that occurs inevitably with the hypothesis that maximize long-term profit. In particular, they draw attention to the ambiguity of interpretation of the concept of long-term profit. They believe that if the theory of the firm was practically useful, it need to know how long is this "long-term". But even a plausible answer is that the length of the period depends on a case-by-case basis, itdoes not matter, because it is impossible to create a theory for each individual case. Even if there were a number of theories, it would be wise to take advantage of them. The theory, which can be widely applied, must be fairly common and relatively simple, however.

Opponents of the theory of profit maximization in the long run indicate one of its principal problem, it is the complexity of this theory. However, this problem applies to most alternative theories of the enterprise, as it is linked to the broader issue of realism of economic theory. In short, it is about that, in fact, there are always some boundaries of realism. If you go beyond them, the subsequent approximation theory to reality (that is tantamount to abandonment of the following simplifying assumptions that apply in any theoretical analysis) leads to the fact that it is overly complex and thus not practical. According to the popular view, this threat and face of the theory that the primary objective of maximizing long-term returns.

Economic theory is to explain the main rules of activity of economic entities, including enterprises and thus provide the necessary information to make this the subject of policy decisions. Knowing the demand curve and the income of the business, cost curve, we need to formulate precise and simple rules for the adoption of such decisions, as for example, the setting of the level of prices or the size of the production. Under the traditional theory, which assumes that the company will maximize the short-term profit, this simple rule is a rule of equal marginal cost with marginal incomes.

Critics of the theory to maximize the long-term return argue that it is overly complicated, as to future profit affects too many disparate factors, operating with different intensity in time, that should be taken into account and to order. For example, the current price to the original point in time affect the future demand and the company's future income and current investments at its future costs. Therefore, it is difficult to determine the shape of the curves of the future demand for products of this company, its future income curves and curves of its future costs. In turn, without knowledge of these curves it is difficult to establish clear rules of policy decisions of the company in accordance with the theory of profit maximization in the long run.

According to critics the hypothesis that maximize long-term profit, it can be used to justify even obvious deficiencies in the management of the firm, which was due to the desire to maximize profits in the long run. You can, for example, argue that firms that misleadingly maximize current revenues and, thereby, put the current profit, are to maximize long-term profits, as increased sales is the expansion of the firm and the expansion is the key to future profits.

We turn now to a consideration of theories that assume that the company is committed to implementing the different objectives (profit is treated as one) and theories alleging that companies tend to maximize common purpose which is not profit.

**Behavioral Model of the Enterprise:** These theories are discussed in the framework of the school, which was developed on the basis of the modern theory of organization, the main creators of H.A. Simon, J.G. March. Behavioral school was the most radical alternative to the traditional theory of the enterprise. The school introduces original concepts (e.g., level of ambition, the institutional gap) and formulates a number of original and at the same time however, the conflicting claims. First of all, the school requires realism in the description of the decision-making process and the need to take into account the influence of organizational factors on the behavior and does not accept the commonly accepted economic theory approvingthat any activity is based on searching of optimal decisions.Positivesuppositionsof the representatives of behavioral theory concern primarily large enterprises. To their mind the behavior of such enterprises submit to particular rules attached to any organization and that are to be studied by economical theory.

Behavioral school treats enterprise as a coalition of parties with conflicting expectations. These expectations should be aligned to the coalition can further exist. The coalition parties are primarily managers, employees, proprietors, suppliers, distributary and consumers.

The idea of treating the company as the coalition was taken from the so-called theory of organizational equilibrium, the creators are H.A. Simon and C.I. Barnard. In particular, this theory argues that each of the participants in the organization gets the promotion (for example, employee gets salary investor- income and customer-service), in return for which he makes a contribution (for example, the worker offers labor, investor - capital, customer - refund services). Each participant will belong to the organization until he received the promotion which will be equal to or greater than the contribution from him.

According to the creators of the behaviorist school, the traditional theory is under highly competitive market conditions only, as the maximization of profit taking for the purpose of activity of the enterprise, implies de facto that only the market determines its decision. However, in today's conditions, particularly in the case of large enterprises, this premise is not adequate. To determine the true objectives of the enterprise, it should be renounced the belief that you can conduct through the deduction described based on a priori assumptions and explore the actual decision-making processes of functioning of business organizations.

Empirical research of behavioral scientists led to the conclusion that businesses strive for different purposes. Based on observations of reality, it can be assumed that the main objectives of the company are: production, stocks, sales, market share, profit. These result from the pressures of the various participants in the coalition. Because the balance of power within the coalition are different in different enterprises and choppy in time, different objectives of the enterprise are implemented with varying intensity and there are even differences in the composition of the goals. Graduation goals and concrete expression are formed in the decision-making process. In view of the fact that individual members of the coalition have different access to information and different roles in decisions, they have different effects on the target. It is clear that the greatest impact are top managers, which are the most knowledgeable about the company and its daily run.

Profits in the light of the proposed theory is always one of the main goals of the company. This reflects pressure from the majority of members of the coalition and, above all, by the owners (because of the profits on dividends and market value of shares owned), senior managers (whose profits serve as the primary indicator of success and the source of financing for expansion), lenders and those enterprises that seek to invest in the business.

Specifics of the behaviorist theory is manifested above all in how they interpret economic choices. This theory rejects a common background in economic theory, according to which economic activity is based on the search for optimal solutions, relevant grounds of rational behavior. Instead of optimizing behavioral school introduces the concept of a satisfactory minimum. In accordance with this concept, when a subject faced with a difficult problem, he is willing to sacrifice the benefits of optimal solution to reduce the difficulties associated with the search. Rather, he chooses the optimal solution which is not satisfactory, that is a decision which is "relatively good" on any selection.

Thus, economic choices, according to the school's behaviorist, is reduced to finding satisfactory solutions which do not interfere with the obvious limitations and are supported by the coalition members and only incidentally can be the best. The company, in light of the described theory, does not maximize profits, in particular, because it doesn't maximize anything. The company usually tries to reach a satisfying minimum level of profit, but once it is achieved, it will be content and will not be seeking more. The same applies to other purposes. Moreover, the decision-making process reflects to a more significant extent than in traditional theory, thereaction to internal factors and to a much less extent as the reaction to changes in the external environment of the firm. In this regard, an important conclusion bythat behavioral scientists is that various organizations "produce" different solutions, their adoption has a significant impact on their content. Large firms should, in accordance with the behaviorist theory, develop certain standard rules and decision-making procedures. These rules and procedures are formed by trade-offs between different groups and points of view and have a tendency to enhanced. This makes implementation of optimizing and promotes conservative policy of risk avoidance. Small firms are less prone to compromise and more prone to take risks.

The greatest value of the behaviorist school is, indisputably, in a study of internal factors, including decision-making procedures. These factors have a strong influence on the large enterprises operating in markets with limited competition and are of key importance in the analysis of the allocation of resources within the firm.

The biggest doubts about this theory gives rise to sharp criticism of its creators against the established economic theory the concept of optimization of activity of the enterprise. It can be assumed that such criticism and the behavioral concept of a satisfactory minimum are the main reason for skepticism by most of the mainstream economic theory to the behaviorist theory. Protecting the traditional theory, they believe that the behavioral school underestimates the impact of limited resources on the processes of economic activity and clearly does not take into account the dependence of the behavior of enterprises from the market. The mere existence of limited resources and limited time extracting effects of economic activity gave rise to a tendency to search for optimal solutions. This trend is reinforced by the competitive environment of the firm. Even the largest corporations are not self-contained in respect of the resources and do not have full control over the market. Even metaphorical analogy of finding a needle in a haystack did not convince supporters of the traditional concept of optimization. Indeed, you can think about how that analogy is successful. To sew one button, you do not need a special needle. It may happen, that there will be enough a first foundneedle, only if it is quite sharp and not too thick, so that it could sew. But not in such a situation, for example, exist tailoring firms, who compete with each other and seek to dominate the market. Each year, millions buttons aresewn and, of course, this cannot be done "somehow". How to define "sufficient subtlety" needles? But what about its thickness? Then perhaps there is a strong correlation.

Another crucial argument against behaviorist schools belongs to the main goals of the company (production, stocks, sales, market share and profit). According to critics of this school, its creators, assuming the existence of these goals, consider them as peering and independent from each other. But this assumption is at odds with their own analysis of the correlation of forces in the coalition, stressing the dominant position in its senior managers,and at the same time, supporters of the behaviorist school do not make any conclusions about the sustainability of the graduation of the purposes of the enterprise.

This can be considered as a paradox, but there is every reason to believe that the behavioral school, despite the rather harsh criticism, has had a much greater influence on the theory of the enterprise and on general economic theory that let to admit its critics. This is clearly apparent in the case of concepts such as: the concept of bounded rationality, which in its essence is very close to that of behaviorist concepts satisfying solutions; the concept of effectiveness (or ineffectiveness), which, in turn, is the concept of organizational behaviorist backlash and the so-called evolutionary theory company [10], created on the basis of the above concepts of full costs and satisfying solutions. Also this influence can be seen in some of the managerial concepts.

**Management Model of the Enterprise:** The founders of the management theories of enterprise are: W.J. Baumol, O.E. Williamson and J.K. Galbraith from the United States and R. Marris, from the UK. These authors refer, usually on a much earlier work of such American authors: A.A. Berle, G.C. Means [11] and R.A. Gordon [12]. Despite the fact that they have criticized some of the behaviorist school, in general, these authors use to achieve it. In their work at the forefront of the process of professionalization of management (separation of ownership from control). In their view, this process occurs primarily in large joint-stock companies (corporations) with the non concentratedproperty and means that the real power and control actually moved from the hands of the principal owners (shareholders) in the hands of professional managers, i.e. employees and when that power remains in the hands of owners it means an exceptional case.

Supporters of managerial concepts have criticized the traditional theory of enterprises, in particular, that it is unrealistic assumptions concerning the balance of power in the enterprise and the motivation of people making the key decisions. These a priori adopted assumptions are well met, to their mind, only under conditions of the "classic" era of capitalism, free competition, in the 19-th century. Therefore, they need to stop and take in the theory some changes that have taken place since then.

First, it should be taken into account the dominant position in large joint-stock companies senior managers (which are conducive to such factors as the splitting of shares of joint stock companies, monopolization of the market and their relative independence from external sources of financing for development). Modern leaders benefit from widely given freedom of action. Secondly, the real motives they guide should be regarded. Observation of the reality shows that the most important explanation of activities include, inter alia: power, security, social status, prestige and professional skills. The profit motive in the case of professional managers is not of great importance, although this does not mean that it completely disappears from the field of their interest. A certain minimum income is required, both for the company and for managers. Joint-stock company must ensure its own existence. In that regard, it should possess the profit toavoidfinancialbankruptand to provide means for financial development.

In the long term the level of profit from joint-stock company, is also an essential criterion for assessing the effectiveness of its management by shareholders and creditors. Thus, the care about own prestige and security does not allow to senior leaders to neglect entirely the concern about profit.

Using this kind of reasoning, founders of the common managerial concepts, like the creators of behaviorist school, proclaim the need to revise the accepted traditional assumptions about profit maximization as the main purpose of the large modern corporation. However, this type of audit is carried out by different authors in different ways. Proposals are different, ranging from management to maximize the utility function and to maximizing the long term rate of expansion of the company. Their common feature is that, unlike the behaviorist theory, they decline as from the traditional concept of maximizing (optimizations) and from other traditional theory analysis tools (for example, from limit values). Unlike traditional theory in these concepts mainlynot profit has to be maximized, but other goals of enterprises.

Within the framework of the mentioned concepts many modelshave been developed. Their common feature in particular is that they presuppose the existence of serious differences between professional managers of many major corporations and their shareholders. There are some differences between the models. Let's consider just some of them, the most typical and original.

In 1963, O.E. Williamson introduced the model in which it is expressed the goal of the modern corporation in the form of maximizing the utility function of managers showing profits and several other variables. In this model, the shareholders connect its usefulness primarily with profit, while the governing society of utility managers may be linked to other objectives. These objectives are, along with profit variables, elements of utility function. So as managers have considerable freedom of action, the level of implementation of individual objectives depends in large measure on their preferences. Due to the fact that in order to meet the demands of shareholders is enough only a minimum profit, managers can implement their own goals which are not necessarily congruent with the goals of the owners of the company. According to Williamson, it could be, for example, on the salaries of managers and other non-monetary factors (own prestige, hiring of new employees etc.)

Implementation of such goals is, of course, connected with the need for certain expenses and this, in turn, means increased cost. In general, according this model companies controlled by managers receive lower profits and higher costs, than the company controlled by "traditional" businesses, ownership and management.

The model ofWilliamson was ambiguously taken in the economic literature. On the one hand, it is criticized. It was pointed out, for example, on a rather arbitrary choice of variables of management utility function, that is, in essence, there is no basis for a uniform interpretation of those variables. Moreover, the author was accused that he changed his subject matter distribution of profit (because of the profit level depends on the realization of other objectives).

The great response received the model of W.J. Baumol [13], developed in the late 1950s. This model was built on the premise that professional managers are more interested in maximizing sales and, more specifically, to maximize revenues, than to maximize profits. According to its author, profit maximization simplifies managers realize their own objectives. At that time this belief seemed plausible, because the results of some empirical studies have shown that payments to top managers were in a closer relationship with sales than with profit. From this simple model followed one important conclusion: the enterprise, maximizing sales, will produce more and sell a little cheaper than the enterprise, maximizing profit. However, lower prices are only expected, because increased sales are usually correlated with the growth of expenditure on promotion of the products on the market, for example, by advertising.

W.J. Baumol's reasoning was subsequently questioned. Moreover, the more popularity gained the opinion, according which the maximization of sales can be considered as a means to maximize future profits. However, the W.J. Baumol later concluded that themaximizing of the growth rate of sales (not just maximizing its level) better reflects reality.

The greatest prevalence in the economic literature, received the management concept, which believe that the purpose of the corporation is to maximize the long-term growth rate of its size, which could be measured, for example, by gross revenue (W.J. Baumol and J.K. Galbraith) or property (the concept of R. Marris). Growth (expansion) of the joint-stock company according to many authors, is the goal to which willingly managers seek and which is the best way to increase their pay and improve power, prestige, social status, etc. But the expansion comes at a cost, so managers, taking care of their own security, forced to choose such ways to ensure that it would not lead to a reduction of the current rate of return below a certain "safe" levels. Let's focus in more detail on this issue.

There are two possible ways of expanding the corporation: inner expansion through diversification of economic activities, i.e. the expansion of its species within the same enterprise and external expansion by merging with other companies.

It should be noted that from the point of view of the corporation, mergers with other companies mean diversifying their economic activities. Therefore, it can be said that diversification is a strategy of permanent increase in the size of the corporation.

Regardless of whether the company's expansion is doneunder diversification policy or in some other way, its implementation will lead to increased costs and then to a conflict with the current rate of return and the payment of dividends. That is why in formal management model there is a restriction in the form of minimum income, which must be a corporation seeking to maximize their growth.

Analyzing the correlation between the growth and profit, we should not forget about the "reverse side of the coin", that is about the impact of the current profit on growth. There is no doubt that the firm receiving the large profits, has more potential for growth than the company that receives them in a smaller size. The more profit, the greater arethe opportunities for financing companygrowth.

A special place among the concepts of this kind takes the concept of J.K. Galbraith [14], though it is not represented in a formalized manner. All authors of concepts wherethe main proclaiming purpose is the firm growth, believe that the real power in most cases in corporations is owned by professional managers. The specificity of J.K. Galbraith's approach is that he more broadly interprets the concept of management and makes a strong emphasis on the collective nature of the decision-making process. In his view, the power of the "mature" corporation belongs to the so-called technostructure, which was composed of all who make decisions, prepares them or provides the information necessary for their adoption. Therefore, it is quite a large group that includes, in addition to professional managers, experts and specialists (engineers, economists, researchers, etc.) and even the support staff. Due to the continuous expansion of the corporation, techno structure can implement their own, specific objectives, including the intangible. Growth in the size of the techno structure extends control over market environment. According to J.K. Galbraith, the control over the market is needed both for techno structure and for the big corporations. Large corporations, bearing in mind that they advance the major capitals, apply sophisticated technologies, carry out its planning for the long term, cannot put themselves at high risk. Most formalized management concept is the concept of R. Marris [15, 16]. The author, as well as W.J. Baumol and J.K. Galbraith, suggests that the increase in the size of the corporation is the primary goal of the managers, the criterion is cost growth of its total assets.

R. Marris also attaches importance to the great security managers. The author emphasizes that the maximization of growth is risky for corporate management, because it leads to the standards of reinvestment ascending (and, thereby, reduce the level of dividend payments), the growth of debt relative to assets and thus, reduce the rate of market share (which is defined as the ratio of the aggregate value of the assets value of the aggregated market shares and reserves). This subsequently reduces the ability of the company to the mobilization of financial resources to the tension in the relations with shareholders and increase the threat of moving over to another monitor to a corporation who has come from outside.

Taking into account all these factors, the managers will be interested in general, according to R. Marris, not to increase the rate of expansion of the corporation at any cost, but to maintain a relatively high rate in the long term (for example, for 5 years), with the assumption that the current rate of return would not fall below a certain "safe" levels. Then R. Marris, comes to the construction of the equilibrium model of the corporation, assuming stability in the long run rate of reinvestment, in market valuation of shares and asset liquidity ratio. Under these assumptions, according the opinion of the developer of the model, to maximize the rate of growth of assets (capital) is equivalent to maximizing the growth rate of total revenue from sales of W.J. Baumol and J.K. Galbraith, as well as maximizing the growth rate of profit. In other words, the model maintains its properties when the target value as a criterion for the size of the corporation and when it is using the gross profit or gross.

**Inference:** The research has shown that exit manytheories of firm; in the article they are put in systematization for the convenience and were divided into three groups, each of which is represented by a wide range of schools. They form, explain and offer a variety of different waysof corporate behavior and the reasons for taking managerial decisions regarding the future of their activities.

## CONCLUSIONS

Identification of the specific model of the enterprise from the perspective of an approach in a school does not only theoretically form a characteristic features of the model, but also try to assess objectives and possible action concerning the future of the enterprise management. It helps to understand the trends in the development of modern enterprises and to expend the theory of the firm.

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