CHAPTER
# 6

# Firm Goals and the Economics of Profit

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## Introduction

What a firm tries to achieve at the negotiating table depends on what it is trying to achieve as an organisation. A supplier wanting above all to fill its factories will accept prices which a supplier seeking the highest margin would reject. A company preparing for a stock market listing will negotiate differently from a family firm planning for the next generation. A board rewarding its chief executive for the share price will send negotiators into the room with different instructions from a board rewarding long-term growth. Before asking how to negotiate, one must therefore ask what the firm wants and who decides.

This chapter examines these questions in four steps. Section 6.1 asks whether profit maximisation is really the goal of the firm, and examines the alternative goals that economists have proposed, from growth and sales to survival and satisfactory performance. Section 6.2 asks whose interests count, comparing the view that firms should serve their shareholders with the view that they should serve a wider group of stakeholders, and showing how corporate governance decides which interests prevail. Section 6.3 examines the time horizon of decision makers and the choice between short-term gains and long-term relationships. Section 6.4 shows how strategy is translated into concrete negotiation objectives, priorities and limits.

The chapter opens Part II and the first pillar of the book's framework, **profit**. It also builds on the agency problem introduced in Chapter 2, since the goals that a firm pursues depend on the people who control it. The Deal File examines a negotiation at the very top of a firm: the vote by Tesla's shareholders in November 2025 on a pay package for its chief executive, Elon Musk, that rewards him only if the company's market value rises as much as eightfold. The case raises every question of this chapter: what the firm is for, whose interests prevail and how far a board should go to secure the services of one individual.

DEAL FILE

## Tesla's Shareholders Vote on Musk's Pay

In 2018 Tesla's board granted Elon Musk a pay package of share options that could be exercised only if the company met a series of ambitious targets for its market value, revenue and profit. In January 2024 the Delaware Court of Chancery, ruling in a shareholder's derivative suit, rescinded the package, holding that the defendants had failed to prove that it was entirely fair to the company (*Tornetta v. Musk*, 2024). In June 2024 Tesla's shareholders voted again to approve the package and to move the company's legal incorporation from Delaware to Texas (Tesla, 2024), although the Court of Chancery later held that the new vote could not cure the defect.

While the appeal was pending, the board negotiated a new arrangement. On 3 September 2025 it granted, subject to shareholder approval, an award of 423,743,904 shares in 12 equal tranches over ten years (Tesla, 2025a). Each vested tranche would add about one percentage point to Musk's voting power, and he could not keep the economic value of the shares unless he remained with the company for at least seven and a half years. Each tranche requires Tesla to reach both a market value milestone and one of a set of operational milestones (Tesla, 2025b). Figure 6.1 shows the market value targets.

**Table 6.1**

*Tesla's vote on Musk's pay at a glance*

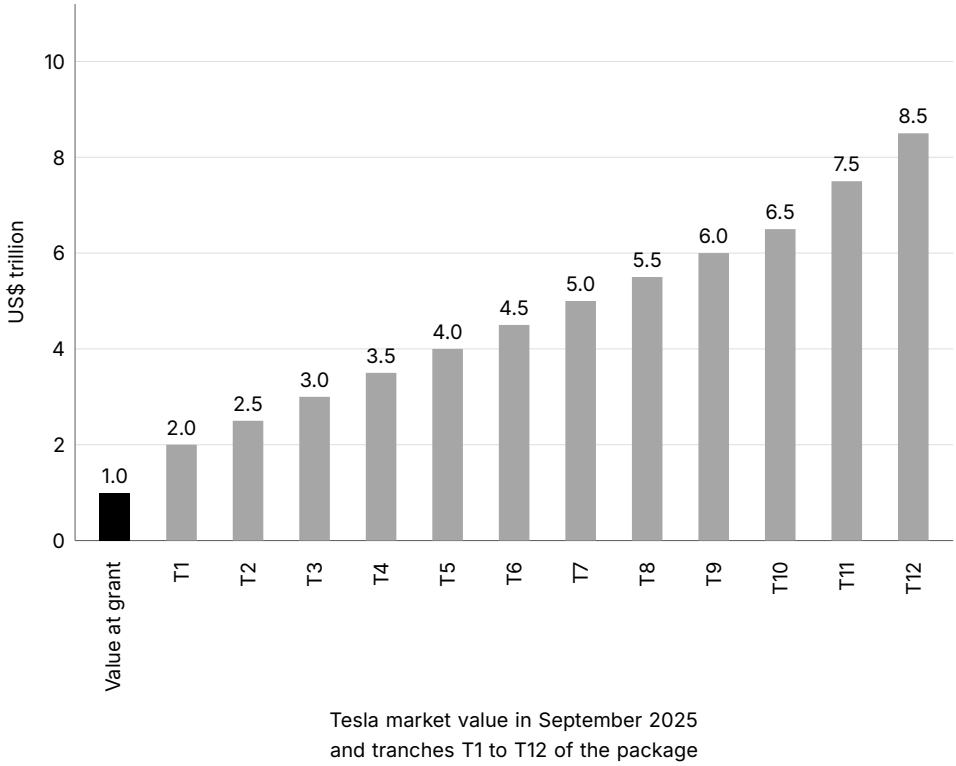
| | |
|---|---|
| **Parties** | Tesla's board of directors and its special committee; Elon Musk; Tesla's shareholders, including large institutional investors, advised by proxy advisory firms |
| **At stake** | Musk's pay and voting control; his commitment to Tesla; the strategy of the company in vehicles, self-driving software and robots |
| **Package** | 423,743,904 shares in 12 tranches; market value milestones from US$2 trillion to US$8.5 trillion; operational milestones including 20 million vehicles delivered, 10 million active self-driving subscriptions, one million robots, one million robotaxis in commercial operation and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) rising to US$400 billion a year |
| **Outcome** | Approved at Tesla's annual meeting on 6 November 2025 by 1.89 billion votes to 0.56 billion, despite the opposition of the proxy advisers ISS and Glass Lewis |

*Note.* Author, based on Tesla (2025a, 2025b, 2025c, 2025d).

**The negotiation behind the vote.** The package was the outcome of several overlapping negotiations. The board negotiated with Musk, who had made clear that he wanted a larger stake and greater voting control before committing his

**Figure 6.1**

*Market value milestones in Tesla's pay package for Elon Musk, compared with the company's value when the award was granted (US$ trillion)*




*Note.* Author, based on Tesla (2025b). The company valued itself at about US$1 trillion on 3 September 2025. Tranches 1 to 10 require increases of US$0.5 trillion from US$2 trillion; tranches 11 and 12 require increases of US$1 trillion.

time to Tesla's plans for artificial intelligence and robots. The board then had to persuade shareholders, many of whom follow the advice of proxy advisory firms, and both leading advisers, ISS and Glass Lewis, recommended a vote against (Glass Lewis, 2025; Tesla, 2025c). The board argued that Musk was indispensable to Tesla's future and would be paid only if shareholders gained enormously too (Tesla, 2025b); critics replied that the package was excessive, rewarded one individual for the work of thousands and placed no limit on his other commitments. Shareholders sided with the board: more than three-quarters of the votes cast on the proposal were in favour (Tesla, 2025d). Six weeks later, on 19 December 2025, the Delaware Supreme Court held that rescission had been an

improper remedy and reinstated the package of 2018 as well, awarding the plaintiff nominal damages of one dollar (*In re Tesla, Inc. Derivative Litigation*, 2025).

**Questions to keep in mind.** Is Tesla's goal to maximise its profit, its market value or something else? Whose interests did the board represent in its negotiation with Musk: those of the shareholders, of Musk himself or of the company as a whole? Does a pay package tied to a ten-year horizon encourage long-term thinking, or does it focus attention on the share price? And how does a firm's choice of goals shape what its negotiators try to win? The chapter answers these questions in turn.

## 6.1 Is Profit Maximisation the Goal of the Firm?

### The Classical Assumption

Economic theory has traditionally assumed that firms seek to maximise **profit**, the difference between total revenue and total cost. The assumption has great power. It explains why firms expand output until the extra revenue from one more unit equals its extra cost, why they enter profitable markets and leave unprofitable ones, and why competition tends to push prices towards costs. In negotiation, it implies that a firm should accept any agreement raising its profit and reject any lowering it.

Economists distinguish **accounting profit**, revenue minus the explicit costs recorded in the accounts, from **economic profit**, which also deducts the opportunity cost of the capital and other resources the owners have committed. A firm earning an accounting profit of 4 per cent on its capital, when investors could earn 8 per cent elsewhere, is destroying value in the economic sense. The distinction matters at the negotiating table: an apparently profitable agreement may not cover the cost of the capital tied up in it, a point developed in Chapter 7 in the discussion of limits.

### Alternative Goals

Real firms often appear to pursue goals other than profit. Economists and management scholars have offered several explanations, summarised in Table 6.2.

These theories have a common thread. Once ownership is separated from control, as Berle and Means (1932) observed in large American corporations almost a century ago, the goals of the people who run a firm may differ from those of the people who own it. This is the agency problem of Chapter 2 applied to the firm as a whole. A manager who wants a larger empire may negotiate an acquisition which shareholders would reject; a sales director paid on volume may accept a contract lowering the firm's profit.

Firms also pursue goals that are not easily reduced to money: survival, independence, reputation, the welfare of employees or the continuity of a family

**Table 6.2**

*Theories of the goals of the firm*

| Theory | Main goal | Key idea | Implication for negotiation |
|---|---|---|---|
| Profit maximisation | Maximum profit | Owners control the firm and want the highest return | Accept any deal that raises profit |
| Sales revenue maximisation (Baumol, 1959) | Maximum revenue, subject to a minimum profit | Managers' prestige and pay rise with the size of sales | Favour volume, even at lower margins |
| Growth maximisation (Marris, 1964) | Maximum growth of the firm | Managers gain from expansion, limited by the risk of takeover | Favour acquisitions and market share |
| Satisficing (Simon, 1955) | Satisfactory performance | Limited information and attention lead to acceptable rather than optimal choices | Accept the first offer that meets the target |
| Behavioural theory (Cyert & March, 1963) | Bargained goals of a coalition | The firm is a coalition of groups whose goals are negotiated internally | Objectives reflect internal compromise |
| Shareholder value | Maximum long-term market value | The value of the firm reflects all expected future profits | Weigh future as well as present gains |

*Note.* Author, based on the works cited.

business across generations. Simon (1955) and Cyert and March (1963) showed that real decision makers, with limited time and information, set aspiration levels and search for options until they find one meeting them, rather than calculating the best possible result. The behavioural theory of the firm adds that the goals themselves are the outcome of bargaining inside the firm, between production and sales, between headquarters and subsidiaries, between owners and managers. Before a firm negotiates with outsiders, in other words, it has already negotiated with itself.

Some religious and ethical traditions question the profit motive more fundamentally. Schumacher (1973), in an essay on what he called **Buddhist economics**, argued that modern economics treats consumption as the purpose of economic activity and work as a cost to be minimised, whereas a Buddhist view would aim at the greatest well-being with the least consumption and would value work as a way for people to develop their abilities and to cooperate with others in a common task. **Islamic finance** offers a more concrete example. Because Islamic law prohibits the charging of interest, Islamic banks earn their returns through arrangements based on the sharing of profit and loss or on a fixed mark-up, employ religious scholars to decide what is permissible and avoid

investments in activities such as gambling and weapons (Moore & Woodrow, 2010). A negotiator who proposes a conventional loan to such a counterpart is not offering a lower price but an unacceptable product; the same economic purpose has to be reached through a different structure. Chapter 18 returns to belief systems as part of culture.

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**KEY MOVE**

Find out what the other firm is really trying to maximise. A counterpart pursuing volume, growth, survival or reputation will value your offer differently from one pursuing profit, and you can design offers giving it what it values most at little cost to you.

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## 6.2 Shareholders or Stakeholders: Whose Interests Count?

### The Shareholder View

Friedman (1970) argued that the social responsibility of business is to increase its profits, within the rules of the game. Managers are agents of the owners, he reasoned, and if they spend the owners' money on social causes they are imposing a tax that no one elected them to levy. Jensen (2001) refined this view as **enlightened value maximisation**: firms should maximise their long-term market value, which requires them to treat employees, customers, suppliers and communities well, but they need a single measurable objective, because a manager told to serve many masters will in practice serve none and be accountable to nobody.

### The Stakeholder View

Freeman (1984) defined stakeholders as any group or individual who can affect or is affected by the achievement of a firm's objectives, and argued that managers should balance the interests of all of them. The view has gained influence. In 2019 the Business Roundtable, an association of the chief executives of leading American companies, issued a statement committing its members to deliver value to customers, invest in employees, deal fairly with suppliers and support communities, as well as to generate long-term value for shareholders (Business Roundtable, 2019). Hart and Zingales (2017) proposed a middle position: companies should maximise the welfare of their shareholders, which includes the social and environmental concerns that many shareholders hold, rather than market value alone.

The debate is not merely academic. It determines who sits at the table, what counts as a good outcome and whose consent is needed. A firm which sees itself as accountable only to its shareholders will negotiate with suppliers and

employees to minimise costs; a firm treating them as stakeholders will negotiate partnerships to share gains. Table 6.3 compares the two views.

**Table 6.3**

*The shareholder and stakeholder views compared*

| Question | Shareholder view | Stakeholder view |
|---|---|---|
| Whom does the firm serve? | Its owners | All groups that affect or are affected by it |
| What is the measure of success? | Long-term market value | Balanced performance for several groups |
| How are other groups treated? | As means to value, protected by contracts and law | As ends in themselves, with legitimate claims |
| Main strength | Clear accountability | Attention to relationships and externalities |
| Main weakness | Neglect of interests not priced by markets | Difficulty of measuring and enforcing performance |

*Note.* Author, based on Friedman (1970), Freeman (1984) and Jensen (2001).

### Corporate Governance and Executive Pay

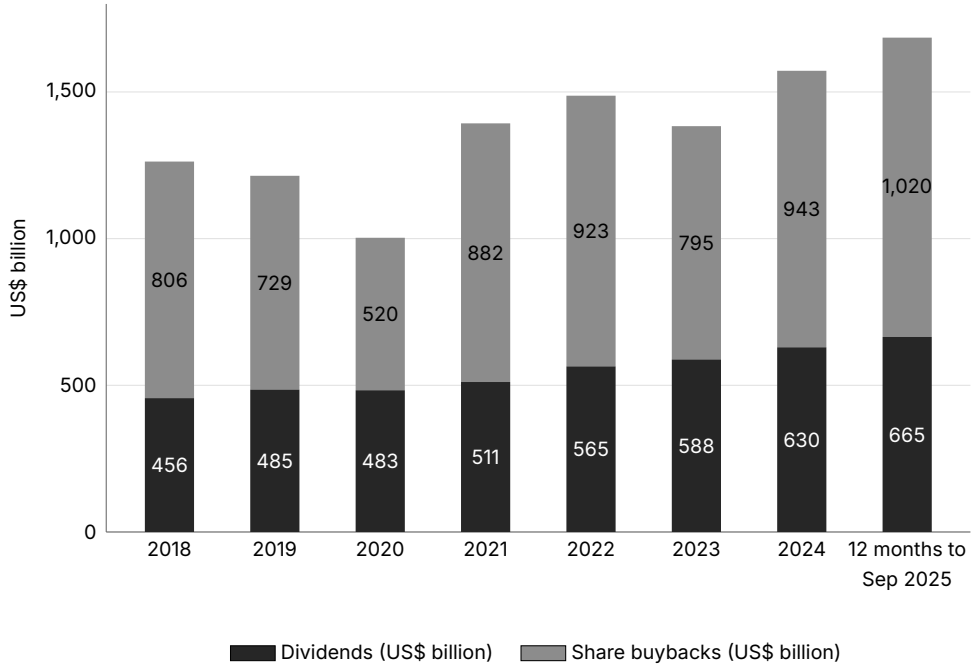
Which interests prevail depends on **corporate governance**, the system of rules and institutions by which firms are directed and controlled. Boards of directors hire and supervise managers on behalf of shareholders; shareholders elect boards and vote on major decisions; proxy advisers, institutional investors, regulators and courts each play a part. Executive pay is one of the main instruments through which boards try to align managers' goals with those of shareholders, but Bebchuk and Fried (2004) argued that powerful managers often influence their own pay, so pay packages may reflect managerial power as much as the interests of shareholders.

The Deal File shows the instrument and its difficulties in their most extreme form. The board argued that a package paying Musk only if Tesla's value rose to between US$2 trillion and US$8.5 trillion aligned his interests perfectly with those of shareholders. Critics argued that a board negotiating with its most powerful member could not be fully independent, and a package of this size reflected Musk's bargaining power rather than the market value of his services. Both arguments draw on the agency theory of Chapter 2.

The scale of money returned to shareholders shows how strongly the shareholder view shapes American business. Figure 6.2 shows the sums paid by the companies in the S&P 500 index as dividends and spent on repurchasing their own shares.

**Figure 6.2**

*Dividends and share buybacks of S&P 500 companies, 2018 to 2025 (US$ billion)*




*Note.* Author, based on S&P Dow Jones Indices (2025). The final column covers the 12 months to September 2025 and is preliminary.

In the 12 months to September 2025, these companies returned more than US$1.68 trillion to their shareholders, US$1.02 trillion of it through buybacks. Supporters see such payments as the efficient return of surplus cash to owners, who can invest it elsewhere; critics see them as a sign that firms are favouring shareholders over investment, employees and suppliers. For negotiators, the figures are a reminder that the value claimed from suppliers, customers and employees is, in part, the value later returned to shareholders.

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**KEY MOVE**

Identify every party whose consent the other side needs: its board, its shareholders, its proxy advisers, its employees and its regulators. An agreement satisfying the negotiator but not those behind him or her will not last.

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DEAL SNAPSHOT

**Unilever Separates Its Ice-Cream Business, 2024 and 2025**

In March 2024 Unilever announced that it would separate its ice-cream division. It argued that ice cream had a very different operating model from its other businesses, with a supply chain and points of sale built for frozen products, a different channel landscape, more seasonality and greater capital intensity, and its growth potential would be better realised under different ownership (Unilever, 2024). The demerger was completed on 6 December 2025, and The Magnum Ice Cream Company, owner of brands such as Magnum, Ben & Jerry's, Cornetto and Wall's, began trading on 8 December in Amsterdam, London and New York (Unilever, 2025). The separation also carried an unresolved conflict of goals. When Unilever acquired Ben & Jerry's in 2000, it agreed that the brand would keep an independent board responsible for its social mission. Disputes between that board and its owners over the brand's political statements followed, and in November 2024 Ben & Jerry's sued its parent company in a federal court in New York (*Ben & Jerry's Homemade, Inc. v. Unilever PLC*, 2024). The case shows how a firm's goals are negotiated not only with markets but also with the groups inside it, and how commitments to stakeholders made in one negotiation can constrain the owners for decades.

## 6.3 Short-Term Gains or Long-Term Relationships?

### The Problem of Time Horizons

Every negotiation involves a choice between the present and the future. A firm can press for the best price today, or accept a lower one in return for a lasting relationship that will yield more over time. Economic theory handles this choice through **discounting**: future gains are worth less than present ones, and the rate at which a firm discounts them determines how much weight it gives to the future. A firm with a high discount rate, because it is short of cash, faces an imminent sale or is run by managers who will soon leave, will favour immediate gains. A firm with a low discount rate will invest in relationships.

Evidence suggests that pressure for short-term results is strong. In a survey of more than 400 financial executives in the United States, Graham et al. (2005) found that most would give up some economic value, and more than half would delay a project that created value, in order to meet expectations for quarterly earnings. Such pressure reaches the negotiating table: a purchasing manager judged on this year's savings may squeeze a supplier whose goodwill the firm will need next year, and a sales director with a quarterly target may grant discounts that undermine pricing for years.

### The Value of Relationships

Relationships have economic value because they reduce the costs of transacting, which Chapter 2 identified as a source of conflict. Partners who trust each other spend less on monitoring and contracts, share information which allows them to create value, and settle disputes before they escalate. Dyer and Singh (1998) argued that such relationships can be a source of competitive advantage in their own right, because they allow partners to make specific investments, share knowledge and combine resources in ways rivals cannot copy. Game theory, discussed in Chapter 12, adds that cooperation is easier to sustain when the parties expect to deal with each other again, because the shadow of the future makes cheating today costly tomorrow.

The choice between short-term and long-term goals is therefore one of the most important decisions a firm makes before it negotiates. Table 6.4 sets out the signs that should push a negotiator towards each.

**Table 6.4**

*When to favour short-term gains and when to favour the relationship*

| Favour the short-term gain when | Favour the relationship when |
|---|---|
| The transaction is a one-off | The parties will deal with each other repeatedly |
| Many alternative partners are available | Alternatives are few or costly to switch to |
| The product is a standard commodity | The product is specialised or co-developed |
| Information can be verified cheaply | Trust and shared information create value |
| The other side will not learn of one's tactics | Reputation travels quickly in the industry |

**KEY MOVE**

Before you negotiate, decide how much the future matters. Write down what the relationship is worth over its expected life, and compare it with what you could gain by pressing hard today.

DEAL SNAPSHOT

**Starbucks Sells Control of Its China Business, 2025 and 2026**

On 3 November 2025 Starbucks announced that it would sell up to 60 per cent of its retail business in China to the investment firm Boyu Capital, at an enterprise value of about US$4 billion, while keeping a stake of 40 per cent and continuing to own and license its brand. The joint venture would operate Starbucks' roughly 8,000 stores in China, with an ambition to expand to as many as 20,000. Starbucks said it expected the total value of its Chinese business, including the sale proceeds, its remaining stake and future licence fees, to exceed US$13 billion (Starbucks, 2025). The transaction was completed on 2 April 2026, with Boyu's funds holding 60 per cent and Starbucks 40 per cent, and the stores began moving to a licensed operating model (Starbucks, 2026). The decision traded full control and a share of future profits for a local partner's knowledge, capital and connections in a market where domestic competitors had grown rapidly. It shows how a firm's goals, here growth in a difficult market rather than the maximisation of its own share of profit, determine what it is willing to give up in a negotiation.

## 6.4 How Does Strategy Become a Negotiation Objective?

### From Strategy to Objectives

Strategy is the set of choices by which a firm seeks to create and capture value over time: which markets to serve, how to compete in them and which resources to build. Negotiations are among the main ways in which strategy is carried out. A firm competing on cost must negotiate low input prices; a firm competing on innovation must negotiate access to talent, technology and partners; a firm expanding abroad must negotiate with foreign governments, distributors and joint-venture partners. The negotiator's first task is therefore to translate the strategy into concrete objectives for each negotiation.

Table 6.5 illustrates this translation for four common strategies.

### Objectives, Priorities and Limits

A well-prepared negotiator brings three things to the table: **objectives**, which state what the firm wants to achieve; **priorities**, which rank the issues according to their importance, so that the negotiator knows what can be traded for what; and **limits**, which state the point beyond which the firm prefers no agreement. Objectives without priorities leave the negotiator unable to make trade-offs; priorities without limits leave the firm exposed to an agreement worse than its alternatives. Chapter 7 develops each element and brings them together in a planning template.

**Table 6.5**

*From strategy to negotiation objectives*

| Strategy | Typical negotiation | Primary objective | Secondary objectives | What not to give away |
|---|---|---|---|---|
| Cost leadership | Purchasing raw materials | Lowest total cost of supply | Reliability, payment terms | Quality standards that protect the brand |
| Differentiation | Supplying a premium retailer | Price that reflects the brand's value | Shelf position, marketing support | Control over how the brand is presented |
| Innovation | Joint development with a partner | Access to technology and skills | Shared costs, speed to market | Ownership of the resulting intellectual property |
| International expansion | Entry into a new market with a local partner | Market access and local knowledge | Speed, regulatory approval | Brand ownership and strategic control |

Translating strategy into objectives requires consultation inside the firm, since different functions value different outcomes. Finance may care most about price and payment terms, operations about delivery and quality, marketing about brand presentation and legal about liability. Cyert and March (1963) would recognise this as the internal bargaining that precedes every external negotiation. Kaplan and Norton (1992) proposed the balanced scorecard as a way of combining financial and non-financial measures of performance, and a similar logic applies to negotiation objectives: a good agreement is judged on several dimensions, not on price alone.

In the Deal File, Tesla's board faced exactly this task. Its strategy was to transform Tesla from a carmaker into a company built on artificial intelligence, self-driving software and robots. The operational milestones in the pay package, from robotaxis to humanoid robots, translated that strategy into objectives, while the market value milestones measured whether shareholders would benefit. The negotiation with Musk thus became a negotiation about the strategy itself.

The author's work on the strategies of multinational firms and on business approaches to economic development examines how firms align their goals with the markets and societies in which they operate, and how those goals shape their dealings with partners and governments (Kumar, 2026a, 2026c).

**KEY MOVE**

Before every important negotiation, write one sentence stating how it serves the firm's strategy. If you cannot write that sentence, you are not ready to set objectives.

BACK TO THE DEAL FILE

## Reading Tesla's Vote

The tools of this chapter explain why Tesla's board negotiated as it did and why the result divided opinion so sharply.

**The firm's goal was long-term market value.** The package paid Musk only if Tesla's value rose from about US$1 trillion, when the award was granted, to at least US$2 trillion and, for the full award, to US$8.5 trillion. This is shareholder value maximisation in its purest form, combined with operational targets that expressed a particular strategy.

**The agency problem ran in both directions.** The board, as agent of the shareholders, negotiated with its most powerful manager, who was also a major shareholder and whose earlier package, according to the Delaware ruling of 2024, had been approved by a board that could not show the deal to be entirely fair. The shareholders, for their part, had to decide whether the board had negotiated for them or for Musk.

**Stakeholders were largely absent.** Employees, customers and the communities in which Tesla operates had no direct voice in the negotiation. Supporters argued that their interests were served by a successful Tesla; critics saw in a package of this size a narrow view of whom the firm serves.

**The time horizon was long, but the measure was the share price.** A ten-year package encourages long-term thinking, yet a target defined by market value can also encourage attention to whatever moves the share price, a concern familiar from the research on short-termism.

**Power and persuasion decided the vote.** Musk's bargaining power rested on the belief of many shareholders that Tesla's value depended on him. The board's campaign to persuade shareholders, and the opposition of the proxy advisers, show how much the outcome depended on persuasion as well as on profit.

MA EXTENSION

### Market Value or Shareholder Welfare?

Hart and Zingales (2017) argued that companies should maximise shareholder welfare rather than market value, because many shareholders care about the social and environmental consequences of the firms they own and cannot always undo those consequences through their own spending. Jensen (2001) replied, in effect, that a firm with more than one objective has none. Apply this debate to the Deal File. Would a board seeking to maximise shareholder welfare rather than market value have negotiated a different package? How should a firm's negotiators weigh value to shareholders against value to employees or suppliers when the two conflict, and who should decide?

ETHICS CHECK

Tesla's package could make one person the owner of shares worth many hundreds of billions of dollars, while most of the company's employees earn ordinary wages. Supporters argue that the package costs shareholders nothing unless they gain far more themselves. Is a pay package ethical if those who must approve it consent to it? Does the size of a reward raise questions of fairness that consent alone cannot answer?

### Pillar Scorecard

**Table 6.6**

*Pillar Scorecard: Tesla's vote on Musk's pay, 2025*

| Pillar | Importance in this case | Evidence |
|---|---|---|
| Profit | Very high | The package tied hundreds of billions of dollars of reward to the creation of trillions of dollars of market value |
| Power | Very high | Musk's perceived indispensability gave him exceptional leverage over the board and many shareholders |
| Persuasion | High | The board campaigned for votes against the opposition of the leading proxy advisers |

### Your Move

*This is a constructed teaching case.*

You are the managing director of a manufacturer of natural cosmetics in Łódź. The firm is owned 70 per cent by its founding family and 30 per cent by a private equity fund that plans to sell its stake within three years. A German discount chain offers a five-year contract to produce cosmetics under the chain's own label. The contract would double your output, but at margins well below those

you earn on your own brand, and the chain requires exclusivity in Germany for products of that type. The fund supports the deal because it would raise revenue before the sale; the family fears that it would weaken the brand on which the firm's long-term value depends.

1. What goals are the family and the fund each pursuing? Use Table 6.2.
2. Which stakeholders would be affected by the decision, and how?
3. Using Table 6.4, should the firm favour the short-term gain or the long-term relationship with its own customers?
4. Translate the firm's strategy into objectives, priorities and limits for a negotiation with the discount chain, using Table 6.5 as a guide.

## Conclusion

Firms do not negotiate in a vacuum. What they try to win depends on what they are trying to achieve, and that depends on who controls them. The classical assumption of profit maximisation remains a powerful starting point, but real firms also pursue growth, sales, survival, reputation and satisfactory performance, and their goals emerge from bargaining among managers, owners and other groups. The shareholder view and the stakeholder view offer different answers to the question of whose interests count, and corporate governance, including the design of executive pay, decides which answer prevails in practice. Firms must also choose between short-term gains and long-term relationships, a choice that depends on how often they will deal with a partner, how easily they could replace it and how much they discount the future. Finally, strategy must be translated into objectives, priorities and limits before a negotiator enters the room. Tesla's vote on Musk's pay shows all these forces at work in a single negotiation at the top of a firm. Knowing what a firm wants, however, is only the first step. Chapter 7 shows how to prepare to get it: how to set targets and limits, uncover the interests behind each side's positions and gather the information on which a successful negotiation depends.

## Exercises

### A. Objective Questions

1. Economic profit differs from accounting profit because it also deducts:
   a) taxes
   b) the opportunity cost of the owners' capital
   c) depreciation
   d) wages

2. According to Baumol (1959), managers tend to maximise:
   a) profit
   b) the share price
   c) sales revenue, subject to a minimum profit
   d) employment

3. Satisficing, as described by Simon (1955), means:
   a) maximising satisfaction of customers
   b) maximising profit over time
   c) satisfying all stakeholders equally
   d) choosing the first option that meets an aspiration level

4. Friedman (1970) argued that the social responsibility of business is to:
   a) increase its profits within the rules of the game
   b) serve all stakeholders equally
   c) maximise employment
   d) support local communities

5. Freeman (1984) defined stakeholders as:
   a) shareholders only
   b) any group or individual who can affect or is affected by the firm's objectives
   c) employees and managers
   d) creditors and banks

6. At Tesla's annual meeting of 6 November 2025, the share of votes cast for or against the pay package for Elon Musk that supported it was closest to:
   a) 25 per cent of votes cast
   b) 50 per cent
   c) 75 per cent
   d) 99 per cent

7. A firm is most likely to favour the long-term relationship over a short-term gain when:
   a) the transaction is a one-off
   b) many alternative partners are available
   c) the product is a standard commodity
   d) the parties will deal with each other repeatedly

8. According to Figure 6.2, in which form did S&P 500 companies return the larger amount to shareholders in 2024?
   a) share buybacks
   b) dividends
   c) the two were equal
   d) interest payments

### B. Short-Answer Questions

1. Distinguish accounting profit from economic profit, and explain why the distinction matters in negotiation.
2. Explain two theories of the firm proposing goals other than profit maximisation.
3. What did Berle and Means mean by the separation of ownership and control, and why does it matter for negotiation?
4. Compare the shareholder and stakeholder views of the firm, giving one strength and one weakness of each.
5. What is enlightened value maximisation?
6. Explain why short-term pressures can lead negotiators to damage valuable relationships.
7. Distinguish objectives, priorities and limits, and explain why a negotiator needs all three.

### C. Long-Answer Questions

1. "Firms do not maximise profit; they negotiate their goals." Discuss this statement with reference to the economic and behavioural theories of the firm.
2. Analyse Tesla's vote on Musk's pay using agency theory and the shareholder and stakeholder views of the firm. Did the board negotiate in the interests of the company?
3. Using the cases of Unilever and Starbucks, explain how a firm's goals shape the terms it is willing to accept in a negotiation over the structure of its business.
4. Choose a firm you know well. Describe its strategy and show how it should be translated into objectives, priorities and limits for one of its important negotiations.

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