**Why do businesses grow?**

There are many reasons that help to explain the motivations for businesses to grow

**1. Profit motive:**

* Businesses grow to achieve **higher profits** and provide **better returns** for shareholders
* The **stock market valuation of a firm** is influenced by expectations of future sales and profit streams so if a company achieves disappointing growth figures, this can be reflected in a fall in the share price. This opens up the **risk of a hostile take-over**and also makes it more expensive for a quoted company to raise fresh capital by issuing new shares

**2. Cost motive:**

* Economies of scale the long run increase the **productive capacity** of the business leading to lower **average costs**. They help to **raise profit margins** at a given market price

**3. Market power motive:**

1. Firms may wish to increase **market dominance** giving them **increased pricing power**
2. This market power can be used as a **barrier to the entry** of new businesses in the long run
3. Larger businesses can build and take advantage of **buying power** (monopsony power)

**4. Risk motive:**

1. Growth might be motivated by a desire to **diversify production and/or sales** so that falling sales in one market might be compensated by stronger demand in another sector
2. This is known as achieving **economies of scope** and is a feature of **conglomerates**

**5. Managerial motives:**

Behavioural theories of the firm predict that business expansion might be accelerated by senior and middle managers whose objectives differ from major shareholders.