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# The Theory of the Firm

C. William Pollard

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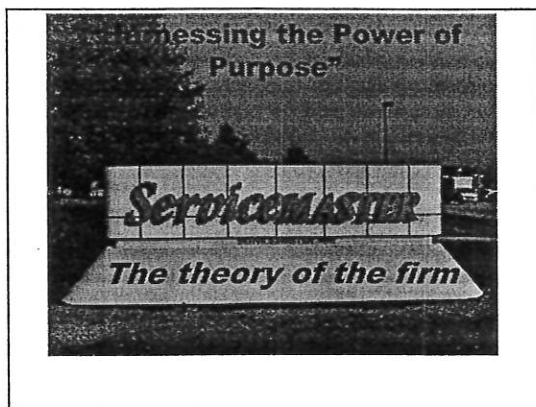
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... for ...

- comes from 25 yrs



- THE THEORY OF THE FIRM -  
~~WHAT~~ THINK ABOUT  
 your business - / THE ORGANIZATION  
 your level  
 "WHAT IS YOUR BUSINESS"  
~~...~~ - Peter Drucker -

**The Theory of the Firm**  
 YOUR BUSINESS

is it?

- Why does it exist?
- Who makes it work?
- What makes it work?

ok

\_\_\_\_\_ x  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

What is it?

An organization that produces economic results

1st OF ALL WHAT IS IT

- Profit  
 - ~~...~~ Compensation  
 - Wages - employment  
 - product / services -  
 Competition price

- Critical Social Function

- Why did you start - Is your core competency  
 market, customer better off today because  
 you brought sum to your core competency?

Int'l #3

**Profit is a measure of effectiveness**

**The Firm has failed if it does not produce goods and services for a price the customer is willing to pay and at a profit that provides reasonable return.**

**Profit is not the end goal but a means goal, a limiting factor, a condition of survival, a cost and an indicator of the future.**

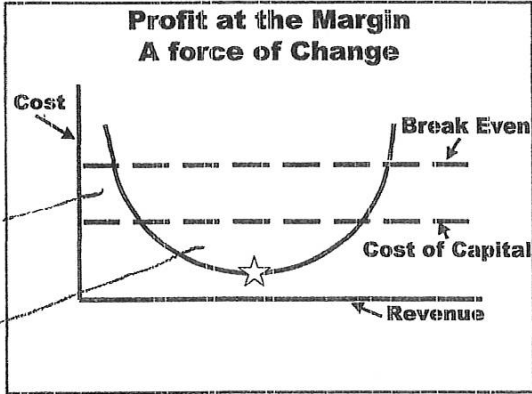
Not in "business until you make a profit"

- Start up / investment cycle - But not a business
- How long before you make money - 1st 5 yrs - Ed - 6 months
- Start down or change - if not profitable THE decision of profit

- Business vehicle for creating wealth
- Reasonable profit - returns on investment EVA
- Exceed cost of capital
- Distribution of goods + services - the firm or govt

- Not just - in services projects
- Not satisfactory result \*
- Limiting
- Survival
- Cost + indicator
- \* Fred's greed not FUTURE

MAXIMIZE profits →



profit  
value creation

- 50M experienced - 81/82  
97/98 "85" strategy

**Profit is a universal requirement - the only "open" question is who will own it?**

~~NO Profit~~  
Bankruptcy

~~ownership~~  
~~state~~

- Individual
- State

**Why does it exist?**

**To create and keep customers**

Not a business without profit

Not a business without customers

→ Focus →

My standard - every week involved in selling a customer or keeping a customer

- Who is your customer -

e.g. insurance (not sure)

- e.g. 50M Franchising business

- Franchisee /

2 x 5



What a customer buys or considers value is never just a "product" or a "service." It is what that product or service does for him/her that is important - **THE BENEFIT**

- ~~What~~ is the Benefit to the customer  
 not seen ( - Product - Price - Quality - cost/quality  
 - Concern with TIME ~~Concern~~ <sup>1/1</sup> ~~on~~ <sup>Time</sup>  
 SECURITY - AHS  
 - generated - ~~Revenue~~

It is not what you want to sell - it's what the customer wants to "buy" - what the customer needs to "buy"



Customer Center  
 - ~~Understand the customer~~ <sup>concerns</sup> - women not men  
 - Trust - Be there when you would say you would come -  
Terminal - Reimbursement services  
Service / well meet



**The Customer is always a Person.**

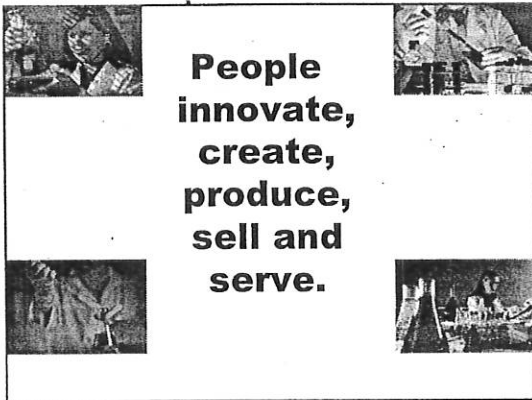


Who is your customer  
 "Sample" not comparing  
 Hospital  
 Home care  
values / interests /  
reception  
 Do you know your Customer?  
 4

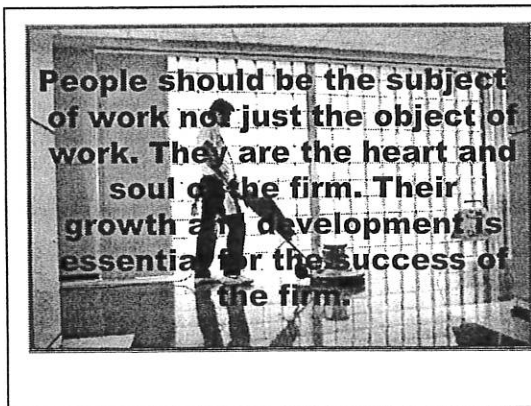
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People



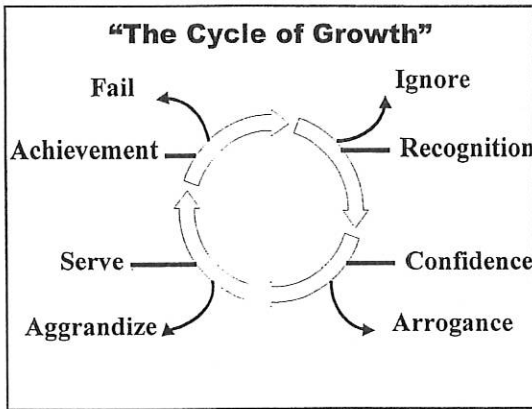
What is your business  
Quaker



Organic story -

- Who people are
- Why they work
- Special created in God's image
- not just cost of doing business

- Story of lunch - CEO  
 Tenenick




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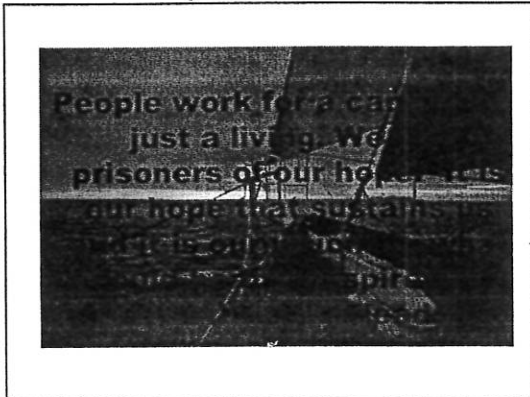
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*"Motivation of people"*

- what are we building
- Does it align with what I want
- SUM manager relocated 15 times for SUM -
- work of sewer / water or well

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**Mission, Purpose and Vision are organizing principles of the firm.**

- The mission defines the intended result.
- The purpose provides a meaningful reason for the result.
- The vision tangibilizes the result by providing a measurable goal.

- wide MISSION 1. intentional leader in career path
- Purpose 2. recruiting specialties
- VISION 3. positioned to succeed

- Key - Harness the power of purpose

why? makes it a

**Management makes it work.**  
Management that organizes, motivates and leads the collective efforts of others to achieve intended results.

- Service Req/Result  
Service/Result ✓

- Design of management  
- mix of resources

- organize - work  
the role of the job complex

- motivation - understanding people

- leads - direction / rule

**Management gets the right things done through others.**



- do right

- do / delegates

**Management is the science of producing results from what we know, the art of growing and developing people in the process.**

- Service

- Act



**Management involves:**

- The planning and organization of work
- The purpose and meaning of work
- The measurement and results of work



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*Their results need to change*

**Effective management requires leadership that:**



- Defines the mission
- Gives the purpose
- Promotes the vision
- Accepts the responsibility
- Earns the trust
- Acts as the heart of a servant

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- Who are you
- What do you want
- What is your business

*Good intentions  
Are no substitutes  
for organizational skill  
leadership, for accountability,  
responsibility and results*