Dr.Alok Kumar Class-M.A.Sem-II

Marris Growth Maximization Model

Working on the principle of segregation of managers from owners, Marris proposed that owners (shareholders) aim at profits and market share, whereas managers aim at better salary, job security and growth. These two sets of goals can be achieved by maximising balanced growth of the firm (G), which is dependent on ihe growth rate of demand for the firm's products (GD) and growth rate of capital supply to the firm (GC). Hence growth rate of the firm is balanced when the demand for its product and the capital supply to the firm grow at the same rate.
Marris further said that firms face two constraints in the objective of maximisation of balanced growth, which are explained below:

i. Managerial Constraint

Among managerial constraints, Marris stressed on the importance of the role of human resource in achieving organisational objectives. According to him, skills, expertise, efficiency and sincerity of team managers are vital to the growth of the firm. Non availability of managerial skill sets in required size creates constraints for growth: organisations on their high levels of growth may face constraint of skill ceiling among the existing employees. New recruitments may be used to increase the size of the managerial pool with desired skills; however new recruits lack experience to make quick decisions, which may pose as another constraint.

ii. Financial Constraint

This relates to the prudence needed in managing financial resources. Marris suggested that a prudent financial policy will be based on at least three financial ratios, which in turn set the limit for the growth of the firm. In order to prove their discretion managers will normally create a tradeoff and prefer a moderate debt equity ratio (rj), moderate liquidity ratio (r2) and moderate retained profit ratio (r3). (Let us mention here that the ratios used in the financial constraint are dealt with in detail in any standard text book on Financial Management and are beyond the scope of this book). However a brief description is given hereunder:
(a) Debt equity ratio (r1) This is the ratio between borrowed capital and owners* capital. High value of debt equity ratio may cause insolvency; hence a low value of this ratio is usually preferred by managers to avoid insolvency. However, a low value of r, may create a constraint to the growth of the firm in terms of dependence on high cost capital, i.e., equity.
(b) Liquidity ratio (r2) This is the ratio between current

assets and current liabilities and is an indicator of coverage provided by current assets to current liabilities. According to Marris, a manager would try to operate in a region where there is sufficient liquidity and safety and hence would prefer a high liquidity ratio. But a high r2 would imply low yielding assets, since liquid assets either do not earn at all (like cash and inventory), or earn low returns (like short term securities).

(c) Retention ratio (r3) This is the ratio between retained profits and total profits. In other words, it is the inverse of dividend payout ratio, i.e., the retained profits are that portion of net profit which is not distributed among shareholders. A high retention ratio is good for growth, as retained profits provide internal source of funds. However, a higher r3 would imply greater volume of retained profits, which may antagonise the shareholders. Hence managers cannot afford to keep a very high value of retention ratio.