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

Williamson's Managerial Discretionary Theory:

The theory of Managerial Utility Maximisation was developed separately by Berle-Means-Galbralth and Williamson. It is also known as Managerial Discretion Theory. The Theory is based on the concept that shareholders or owners of the firm and managers are (two separate groups. The owners or the shareholders want high dividends and are. therefore, interested In maximising profits, the managers, on the other hand, have different motives other than profit maximisation. Once the managers have achieved a level of profit that will pay satisfactory dividends to shareholders and still ensure growth. they are free to increase their own emoluments and also the size of their staff and expenditure on them. In the words of Williamson, "7b the extent that the pressure from the capital market and competition in the product market is imperfect, the manager, therefore, has discretion to pursue goals other than profits." Further Berle and Means suggested that "The lack of corporate democracy leaues owners or shareholders with little or no power to change corporation policy." According to Williamson, "Managerial Utility function may be expressed as follows:

U = f(S, M. ID)
It will be read: Managerial utility is a function (f) of additional expenditure on staff, managerial emoluments and discretionary investment.

(Here, U = managerial utility; S = additional expenditure on staff; M = managerial emoluments and ID = discretionary investment).
Managerial utility function maximises the utility of the managers rather than profits of the firm. The manager is expected to follow policies which maximise the following components of his utility function.
i. Expansion of Staff: The manager will like to increase the quality and number of staff reporting to him. This will lead to an increase in the salary of the staff. More staff are valued because they lead to the manager getting more salary, more prestige and more security.
ii. Increase in Managerial Emoluments: Managerial Utility also depends on managerial emoluments. It includes facilities like entertainment allowance, luxurious office, staff car, company phone, etc. Expenditure of this nature reflects to a large extent the prestige, power and status of the manager.
iii. Discretionary Power of Investment: Managerial utility also depends on the discretion of the manager to undertake investment beyond those required for normal operations.

The manager is in a position to invest in advanced technology and modem plants. Such investments may or may not be economically efficient. These investments may be undertaken for the self-satisfaction of the manager. According to the theory, in a firm, shareholders and managers are two separate groups. The firm tries to get maximum returns on investment and get maximum profit, whereas managers try to maximize profit in their satisfying function.

At last, Williamson's managerial discretion theory shows the utility function of a manager. In this theory, the firm will try to get maximum returns or maximum profit where as manager try to maximum utility satisfying function. They are in equilibrium when the utility has maximum amount.