Firms may undergo two different types of growth, for which there are three subdivisions of growth. Internal growth, the most common and recognised of the two methods, involves investment in new and/or better capacity (such as new buildings or technology) to improve productivity and growth. This is acquired and built from scratch. External growth entails merging with, taking over or acquisition of another private firm, again for the same reasons. From these stem vertical, horizontal and lateral growth.

Vertical growth occurs when a firm grows backwards along its supply chain or forwards along its distribution chain. This concerns the production and sale of the good or service. Firms will grow via the former if they decide to create the components necessary to construct the final product – otherwise, they will have to buy them (through cheap imports, for example) and will not grow in this way. The latter involves the owning and usage of the outlets to sell the product. Each rely on one another – firms will not sell anything if they don't supply things to make their product; nor will they grow if they do not sell what they produce to generate profit for further investment. Increasingly, outsourcing of the initial supply process is being used as a cheaper alternative in competitive markets.

Horizontal growth is when a firm acquires or builds more factories, plants etc. engaged in the same production processes in the same market. Acquisition in such a way helps to exploit economies of scale and possibly move firms into a more dominant, monopolistic role, if they happen to obtain enough of a share of the market. This can either be successful or not so in leading to an eventual rise in growth.

Lateral growth occurs when a firm attains a place in a completely different market, in order to diversify and benefit from the potential economies of scale that result. These involve those of risk-bearing, financial and managerial. Firms may decide to remove themselves from declining markets and into those with great potential by this form of growth. Managerial diseconomies of scale can result due to an exposure to lacking expertise and skills in the industries they are investing in, so firms must have the necessary knowledge to ensure this does not happen.

Firms wish to grow in size to maintain their position in the market, and to perhaps become leaders in their particular field. In competitive markets, growth is the catalyst by which firms maintain their security and prevent falling out the market. This is to the benefit of the consumer, as higher growth leads to productivity increases and these are passed on in lower prices. Behavioural theories suggest this is achieved through a series of objectives by the process of "satisficing". As firms set manageable objectives that are reached, more demanding tasks are undertaken to eventually realise an ultimate objective. Along the way, aspiration levels are raised and this in itself creates motivation to succeed, in effect creating a self-fulfilling process.

The most well recognised reasons why firms wish to grow is profit maximisation. Profit is maximised when marginal revenue (MR) equals marginal cost (MC) i.e. where the revenue raised from selling an extra unit is equal to the cost of producing that extra unit. As the reward to entrepreneurs for bearing the risks of business, it can be used to invest in capital to fund future growth. The firm has the choice on how much profit to retain in relation to distributed profit. A private company may wish to

pay more to shareholders, whereas other companies may wish to not do so – this affects whether the firm is likely to be taken over.

Profit maximisation assumes, however, that there is a desire for higher profit, though this is not always necessarily the case. Shareholders may wish to see more profit being paid to them in the form of dividends, but managers ultimately want the sale of their product to be at its fullest potential.

Managers wish firms to grow in order to maximise sales revenue, which they believe is fundamental to growth, as opposed to profits (which have to be distributed among shareholders) and external finance. To maximise sales, firms must spend money on workers and investment projects, all of which comes from profits. Indeed, legal rights place constraints on how far sales can be maximised, given that shareholders demand a percentage share of the profits. As maximum sales revenue is most likely to occur above maximum profit level, there is a conflict of objectives between shareholders and managers, yet goal in common they have is in growth itself.

Growth is seeked by managers not only for their own salaries, but also for power and status. Shareholders seek growth in the capital value of the firm to increase their personal wealth. Much like in the macro economy, growth of the firm's demand in line with the firm's capital is the optimum. At this rate, there is a trade-off between the manager's goals and the shareholders goals. This increases stability of the firm in the market and of the market itself, also reducing internal conflicts which may arise. Mutual objectives for many firms, if realistic, are a shift towards a more monopolistic position in the market and to take advantage of possible economies of scale. With less competition available, firms will be able to gain more profit without needing to invest as much as in a competitive market. Although to the detriment of the consumer, growth of firms in excess of competitors could result in a monopoly being established, as more plants and factories are acquired. Economies of scale introduce more efficiency in production processes and larger sales revenues – this helps both the firms and consumer.

Large firms, for example, have significant profit levels and less variable profits, but, even in a recession, are still able to grow as a result of pursuing alternative objectives to profit maximisation. Why firms wish to grow encompasses all of these reasons, and not just the well-known factor of profit.