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THEORIES OF THE FIRM IN RELATION TO CONSUMER BEHAVIOUR: A REVIEW

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Abstract

This paper aimed at identifying various theories of the firm in relation to consumer behaviour. In light of the above, related literatures were extensively reviewed and discussed using the marketing insights to establish how the identified firm theories which include neoclassical theory, expectancy theory, resource dependence theory, agency theory, and theory of motivation impact on the behaviour of the consumer. Based on the review of literature, the paper concluded that firm theories in relation to consumer behaviour can be used to achieve marketing success.

Key words: Economic theories, firm theory, marketing, consumer buying behaviour.

Introduction

Firms serve as an integral part of modern-day economy (Alvarez, Zander, Barney & Afuah, 2020; Hart, 2011). A firm is a collection of persons with individual preferences and values working together in a legal relationship to achieve a unified goal. Theory is a systematic process of understanding the order and logic of what is observable in the globe. Theories of the firm also serve as a method for conceptualising the firm. Theories of the firm explain the relationship between/ among organizations and its publics. The word theory is frequently used in the lexicon of nowadays researches (Abend, 2008). Studies conducted in every discipline have their theoretical underpinning. Generally, a good theory possesses both explanatory value as well as predictive value, with uniqueness and parsimony (Biesanz, 2024).

Economic theories that impact of the operations of the firm is of great importance to the marketer (Alvarez, Zander, Barney & Afuah, 2020). Usually in business and as the economists put it, firms create supply and exist to maximise profit while demand is being created by consumers who naturally act to maximize utility. It costs the firm a fortune to ensure production and supply of goods and services that satisfy human needs no doubt. However, the study of consumer behaviour puts more emphasis on how much it costs the consumer to obtain/ acquire, use and dispose of the product.

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Marketing is a human activity that deals with the exchange of goods, services and ideas between two or more persons for the purpose of satisfaction at a reasonable profit. For this exchange to take place there must be a seller and a buyer/ consumer. There has been a paradigm in emphasis in recent time; from organisation, organizational behaviour, production, etc. - what used to be, to consumer, consumer behaviour and satisfaction- what is. Emphasis is now placed on the consumer, and their welfare. The marketing orientation suggests that the consumer remains the king and takes centre stage in every firm's activities. The marketer is not only concerned about selling his product but also does a follow up to know the behaviour of his consumer on how the product sold is used and disposed of.

Consumer behaviour is the study of the consumer on how he behaves before, during and after making a purchase. Khaniwale (2015) defined consumer behaviour as the study of individuals and how they think or feel before, while and after using a particular product.

There are favourable and unfavourable behaviours of consumers, so the marketer's task is to reduce or eliminate unfavourable behaviour and enhance favourable behaviour bringing out consumer-friendly policies that guarantee customer satisfaction. Customers' perception in relation to the employees' attitude and overall firm performance greatly influences consumer behaviour (Simpson, et al., 2011).

Several authors have conducted similar researches on the subject matter (Biesanz, 2024; Lunenburg, 2012; Alvarez, Zander, Barney & Afuah, 2020; Hart, 2011; Hillman, Withers & Collins, 2009). However, there seem to be a lacuna still, giving the fact that theories of the firm have not been duly related to how the ultimate consumers behave in their interactions with both the internal forces of the firm and its external environment- outside the firm. These studies largely attest to the success of economic theory in organizational behaviour and structure, however, there are still limited studies on economic theories as they relate to consumer behaviour (Rachmad, 2024; Macher & Richman, 2006).

Most economic theories of the firm are borne with the orientation of production and output maximization, resource control, cost minimization, profit maximization, organizational behaviour, etc. (Chrisman, Fang, Vismara & Wu, 2024). In as much as we know that firms ought to constantly pursue and achieve the above objectives and many more to keep them afloat, the marketing concept believes that the pursuit of customer satisfaction, study and evaluation of their behaviour to know what their likes and dislikes are will not only lead to short run profit maximization but also make an organization achieve sustainable performance. The objectives of this study include identifying firm theories and their applications in day-to-day business operations, how these theories relate to consumer behaviour and to further examine their impact on marketing performance.

Firm's theories that educate the consumer on pre-purchase, purchase and post-purchase behaviour are crucial to the marketer. Giving the foregoing this paper tends to identify various theories of the firm in relation to consumer behaviour. They include; neoclassical theory, expectancy theory, resource dependence theory, theory of motivation, transaction cost economics theory and agency theory. These theories are discussed hereunder.

The layout of this paper comprises of the introduction which looks at the general background to the study. The next section is the literature review which involves extensive review of relevant literatures on how firm theories in relation to consumer behaviour can

impact on marketing performance in a view to exposing the theoretical and conceptual backings of the study. Finally, conclusions are drawn based on the outcome of the literature review.

Study's Objective: In research writing, it is essential to identify one or more baseline theories that form the underpinning of such study. These theories may come from the study domain, related discipline or even from a completely distant study domain (and be related to the variables in the study). Theory serves as the basis for explaining and describing the variables in a study for better understanding of the subject matter. This study therefore tends to identify the various theories of the firm that can be adopted in the study/ discipline of consumer behaviour in particular and marketing in general. This is achieved through extant review of related literature.

Literature review

This section highlights the adoption of firm's theories in organizations as accounted by several authorities in economics, law, consumer behaviour and marketing literature.

Theoretical foundation of the study

The study examines the various theories of the firm, drawing its theoretical underpinning on several theories spanning from different disciplines including management, psychology, consumer behaviour, law and economics (Gindis & Hodgson; 2024; Wieland, 2024). The economist's notion of firm's theory centres on output optimization, production efficiency, etc. The Marxist orientation of theory is a typical example. Prior to the marketing era, emphasis was placed on organizational performance and how it is structured as a unified whole. Typical of this belief is Mintzberg's framework of organizational structure (Lunenburg, 2012). Before now, little attention was given to the market where the products are sold, until the marketing concept proposed and presented the consumer as the pivot around which all firm's activities revolve and their satisfaction paramount.

Firm theory in relation to consumer behaviour posits that a firm exists solely for the wellbeing and satisfaction of the consumer. The theory anchors on the premise that demand, supply and utility should be customer-driven; and that price is the driving mechanism that pushes consumers to purchase a firm's product- the other is quality. Over the years the business terrain has witnessed an upsurge in the application of marketing concepts and various organisation's theories in business activities, knowing that these concepts can be better channelled towards achieving favourable consumer behaviour.

Firm's Theories

The following theories are identified as invaluable tools for use in achieving favourable consumer behaviour. They include; neoclassical economic theory, expectancy theory, resource dependence theory, theory of motivation, transaction cost economics theory and agency theory.

Neoclassical economic theory

The neoclassical theory is the most popular economic theory that is applied in organisations today. Anchored on the founding ideologies of renowned economists Adam Smith (1723-1790) and David Ricardo (1772-1823), the theory views economics to encompass

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the concepts of supply, demand, profit, and satisfaction, without which the practice of economics is incomplete.

In the neoclassical theory, firm owners, managers, workers and consumers constitute the firm's structure. Neoclassical theory is essential in organisations' policy making. Neoclassical economics is an approach to economics that focuses on supply and demand in relation to individual's rationality and ability to optimise utility (Atanasovska, Gjorgjiev & Karova, 2024). Individual's interest lies in the even distribution of income in markets, profit maximization and value optimization.

Neoclassical economists anchored their arguments and analysis on marginal utility theory to ascertain the rationality of the economic man (Zalega, 2014). This entails that man (consumer) is liable to make those choices and take only those decisions that maximize utility. To achieve this, the consumer is knowledgeable or seeks to be knowledgeable about a particular product of interest and source for information that aids the smooth transmission of product from vendor to buyer at minimal cost (including fair price, convenience, and timely delivery) and maximum satisfaction.

Expectancy theory

Lunenburg (2011) defined expectancy theory as a cognitive process theory of motivation which explains the relationship between effort put into a particular task, the attained performance from such task, and the reward received from the effort and performance. Put in another way, an employee is motivated knowing full well that putting in strong effort in a task will result in good performance and further to desired reward.

Expectancy theory has in recent years taken centre stage in the study of human attitudes and behaviour in the work place (Li, 2024). Expectancy theory was first developed by trained psychologist Victor H. Vroom in 1964 where he proposed the VIE theory (valence, Instrumentality, Expectancy). **Expectancy** is an employee's estimate of the probability that effort put in a particular job will lead to a given level of performance. **Instrumentality** on the other hand is an individual's estimate of the probability that a given level of achieved task performance will yield several work outcomes. And lastly, **Valence** is the strength of an employee's preference for a particular reward.

Vroom posits in the below equation that motivation, expectancy, instrumentality, and valence are related to one another:

$$\text{Motivation} = \text{Expectancy} \times \text{Instrumentality} \times \sum (\text{Valence}(s))$$

Organizations' key players should endeavour to increase employees' belief on the assurance that good performance leads to valued rewards. Expectancy model of behaviour explains that effort leads to successful performance and further outcome. i.e. (E-P) \sum (P-O).

Where E= Effort; P= Performance, and O= Outcome

When firms apply expectancy theory in their operations, it helps business owners to better prioritize resource allocation, ensuring effective utilization of resources to support valuable projects and activities that guarantee returns (Li, 2014).

Resource Dependence theory

Resource dependence theory is a management theory that maintains that the organization is an open system that depends on macro environmental contingencies, recognising the power owned by each individual or department of the organization as crucial to

its resources and ultimate survival (Chiang & Chuang, 2024; Yilmaz, 2014). Resource dependence theory supposes that the organization is an active mechanism (not passive) in the environment within which it operates and that its existence is dependent on contingencies in the external environment. There are some external factors that impacts on organizational behaviour and, depending on the context of such factors, managers have the power to act to minimise environmental uncertainty and dependence by veto of resource control (Hillman, Withers and Collins, 2009).

One central assumption of resource dependence is that any organization that wants to survive in the face of an uncertain environment and the threats it poses must acquire and sustain resources ((Macedo and Pinho, 2006). Resource dependence and organizational relations suggest that organizations interrelate and interdepend on each other for survival. This explains the idea of merger and acquisition among corporations. Firm's resource is a good justification why some firms can on a consistent basis outperform others (Barney, 2001).

Organization's core competence is measured by the level of improvement in the collaboration among stakeholders (customer, supplier, and competitor), which avails it the dependence, power and resources necessary for survival. Corporations' strength is based on its exchange resources and mutual relations between internal and external customers (Yilmaz, 2014).

Davies and Cobb's view of external control of resource explains the sources and consequences of power among firms, and how those at the helms of affairs in the organization flex their power and manage their autonomy, and at the same time maintain a stable and cordial exchange relations and strategic alliance among organization's stakeholders (Davies and Cobb, 2009).

Theory of Motivation

An organization's workforce deserves adequate motivation because the customer contact employee is the reason why the organization's guests/ customers are satisfied (Sturman and Ford, 2011). Motivation can be defined as a driving force behind a person's behaviour that makes him/ her perform a task at will or out of volition (Lai, 2011). Bandhu, Mohan, Nittala, Jadhav, Bhadauria and Saxena (2024) maintained that motivation is a key driver of human behaviour.

In the early days, motivation from B. F. Skinner's view point was characterised by extrinsic reinforcement which could be positive or negative. Positive reinforcements, or rewards, are consequences that increase the probability of a given behaviour that are expected of the individual, while negative reinforcements are consequences that increase the probability of a given behaviour by eliminating or reducing some negative external stimulus (Lai, 2011). The power of positive reinforcement cannot be overemphasised: reward desired behaviour and expect more of desired outcomes, the reverse is the case (Sturman and Ford, 2011). Improper reinforcement can unintentionally arouse a negative attitude in employees (and customers also).

As Maslow puts it that an already satisfied need ceases to be a motivation, and an individual moves to the next step in his hierarchy of need. Identification of need and proffering solution to them can lead to organizational performance (Jerome, 2013).

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One form of motivation is the employee compensation. Employee compensation system helps in managing human resources better. Motivation in the form of compensation influences the behaviour of the employees even though it attracts additional cost making it difficult for organizations to sell at competitive price in the market.

In Equity theory of employee compensation, what determine fair organisation-employees relations is employees' perceptions of their contribution to the firm, what they get in return, and their return-contribution ratio relative to their counterparts within and outside the organization. If an employee notices that other employees get more rewards for similar efforts, this will create feelings of injustice leading to lower morale on the job, greater absenteeism, and even increased theft and other negative traits (Sturman and Ford, 2011).

Individuals and groups differ in their value "priorities" or "hierarchies". What motivates one individual may not actually motivate the other. Values are important in the explanation of social and personal organization and change (Schwartz, 2012).

Values and motivation are interrelated. Our values, represents what we hold as "important" to us in life. Each individual holds numerous values (e.g., achievement, security, career building, etc.) with varying degrees of importance. The degree of importance attached to our values determines the level of our motivation (i.e. what we value most will motivate us the more).

Goal-setting theory of motivation proposed by American psychologist Edwin Locke in 1968 lays emphasis on the significant relationship between goals and performance, where he first demonstrated in his article "Toward a theory of task motivation and incentives" that employees were motivated by goals and feedback. Ay (2025) corroborated the above when he demonstrated that motivation spurs up productivity in the employee leading to overall firm's success.

This further buttress that goals that are specific, challenging and yet attainable could be a source of motivation to employees and that goals poses a pervasive influence on the behaviour and job performance of an employee. Regardless of different opinions by different theorists in management practice on the theory of motivation, the underlying basis of the theory is founded on goal setting (Lunenborg, 2011).

Transaction cost Economics theory

The relative cost organizations incur in running their businesses, and also the cost and time it takes consumers to get information about market offerings is of great significance to marketers Patil, Garg, Gabaldon, Patil, Niranjan & Hawkins (2024). Transaction cost economics refers to the cost that accompanies any exchange between a firm and other agencies (the market) involved in a transaction.

Search cost, Monitoring cost, and adapting cost, are important indicators of transaction costs (Teo, and Yu, 2005). Consumer's purchase intentions is negatively associated with perceived transaction cost, and perceived transaction cost is associated with uncertainty, dependability of vendor, and buying frequency (Teo, and Yu, 2005). Customers may be affected by search cost during the first transaction. Information is vital in the marketing of a product, and the costs involved in searching for a particular product may affect the actual purchase of such product. It is the perceived transaction cost that determines the customers' evaluation on whether a certain purchasing pattern is economically viable or otherwise.

Agency theory

Agency is the hiring of a person called agent by a principal for the purpose of mitigating between business and the market/ customers. Agency is necessary in even the simplest functions in our everyday life. Agency theory focuses on the relationship that exists between one party- the principal and another- the agent where the agent is contracted to perform some task(s) on behalf of the principal. Here both parties are viewed as rational economic-maximizing individuals ready to bear the cost implications of the contract. This is referred to as agency cost; one of which is bonding cost (cost incurred by the agent in executing the contract) and the other monitoring cost (cost incurred by the principal while monitoring the agent to ensure judicious use of resources while executing the contract and to ensure that the terms of contract is adhered to).

Agency model posits that individuals are presumed to be rational with self-interest regarding the terms of contract (Aish, Kortam and Hassan, 2008). This is where conflicts arise between the principal and the agent. For instance, there often arises a conflict of interest between managers and owners of firms; this of course contributes vastly in contemporary principal-agent literature (Hart, 2011). Information asymmetry, fraud, rationality, shareholders' selfish interests, separation of ownership from control were an agent uses the firm's resources for his/ her personal business, etc. are mostly causes of conflict between the agent and the principal (Namazi, 2013; Panda and Leepsa, 2017).

The basic theme of agency law is that a principal who decides to carry out business activities through an agent is liable to any foreseeable risk that comes with making such decision, and is also entitled to the benefits accrued from the agency relationship (Dalley, 2011). The law that binds this relationship is known as agency law. The reason for agency law is to restore the status quo after choosing an agent.

Theories of the firm in relation to consumer behaviour

Here we discuss how the identified theory can be related to consumer behaviour. It tends to identify how the various firm theories influence the behaviour of the consumers.

Neoclassical theory and consumer behaviour

The progressivity of studies on neoclassical theory has helped debunk the old Marxian orientation that the Marxist school of thought sees economics from institution point of view only. Contrary to the aforementioned claim, the premise of neoclassical theory is individualism. The neoclassical conception includes a new paradigm considering the value of goods, based on utility from the consumer's perception (Hudea, 2015). In neoclassical economics emphasis is laid on demand and supply putting into consideration those economic policies that guarantee utility and satisfaction of the ultimate consumer. The marketing concept posits that the consumer will buy those products that represent a bundle of value, benefits and guarantees customer satisfaction and customer delight. Therefore consumers and the way they relate value and utility can be explained from the neoclassical theorist viewpoint.

Expectancy theory and consumer behaviour

Expectancy theory can be related to consumer behaviour as consumers expect nothing less from the organization or business they are patronising. Similarly, the theory can be related to how consumers are motivated to initiate a purchase. Expectancy-value theory posits that an

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individual's choice, persistence, and performance can be explained by his/ her belief about how well he/ she is likely to do on an activity and the extent to which he values such activity (Wigfield and Eccles, 2000).

Although expectancy theory often considers the behaviour of the internal customer of the organization, marketers can extend a workable theory as this to apply also to the external customers (consumers) and how it affects their behaviour. This informs why many firms are strategizing and re-strategizing in order to meet up customers' expectations, and to make decisions that will keep them afloat in the business arena.

Expectancy is a cognitive evaluation strongly weighted by a person's (customer) previous experiences, personality, self-confidence and emotional state. Valence could be positive or negative. A positive valence is an indication that the customer has preference for getting the reward as opposed to a negative valence where he, based on his perception evaluated that the reward doesn't fill a need or individual goal, and thus does not attach any value towards achieving it. Customers need value for their money and will be ready to buy only those products that add value to their lives.

Consumers are full of expectations, and the success of marketing is explained by the customer's belief on how well an expected value measures up to actual value received on each service encounter.

Resource Dependence theory and consumer behaviour

The marketing concept holds that the customers remain an organization's most valued resource and their relationship must be guarded topmost. Also, resource dependence theory has been vividly employed in not-for-profit marketing to serve consumers (masses) better (Macedo and Pinho, 2006).

Customers are the king and organisations depend on them for survival; the success of the organisation revolves round the customer. External Control of resource which gives rise to merger and acquisition argued that merger firms that are efficiency driven actually provide little benefit to their consumers and other stakeholders (Davies and Cobb, 2009). In marketing, whatever decision taken centres on the customer and must be such that benefits and add value to the customers because they are the mainstay of every business enterprise.

Theory of Motivation and consumer behaviour

Economists believe that incentives are capable of promoting effort and performance towards a given task (B'Enabou and Tirole, 2003). In marketing incentives are given to customers in order to attract customers and initiate a sale. Marketing programs like sales promotion, trade show and exhibition are designed to induce purchase. Marketers need to constantly monitor the position of the consumer in the need hierarchy.

Abraham Maslow opined that individual is motivated to achieve certain needs and that some needs take precedence over the other depending on the importance of such need, and also depending on individual need level in the hierarchy (McLeod, 2017). What motivates an individual at the physiological/ basic need level differs from what will be used to motivate an individual at the self-actualization stage. For instance, a customer that drives a Mercedes Benz car but has no home of his own may not be motivated by the same brand of car. A firm that want to motivate him may try out other brands of state of the art cars, or better still offer him house loan that will facilitate his moving to his new dream-home. The aim of the marketer is to

enhance brand image, customer satisfaction and loyalty (Zhang, 2015). Motivation is a tool that a firm uses to ensure organisation's success.

Transaction Cost Economics Theory and consumer behaviour

Transaction Cost Economics emphasises the organization of all costs incurred whenever a good or service moves from a producer to a consumer across a technologically separable interface (Nagle, Seamans & Tadelis, 2025). The central tenet of economics is to achieve optimum production at a minimal cost. The crux of TCE is describing an organization not in neoclassical terms as production but in organization terms as governance structure (Macher and Richman, 2006). The goal of marketing is to ensure a cost of goods sold does not undermine the satisfaction of the ultimate consumer. Cost to the consumer represents something in exchange for value. The cost incurred for transferring a good from the producer to the consumer should be fair enough to attract positive behavioural intentions such as repeat purchase, brand loyalty, etc., and eliminate negative behaviours like post purchase dissonance. The emergence of the 4C's of marketing- consumer, cost, convenience and communication- explains that marketing has shifted from emphasising on how to allocate price on a product to examining what it costs a consumers to own a product (Draskovic and Valjak, 2012). To achieve favourable consumer behaviour, the total cost of acquiring a product should not exceed the value of the product.

Agency theory and consumer behaviour

The agent is legally authorized to undertake business transactions on behalf of the principal. Agency theory is one of the oldest theories in management and economics literature (Panda and Leepsa, 2017), even though it has not received as much popularity in the study of consumer behaviour. In a typical business setting, the shareholder is regarded as the principal, whereas the manager that does the daily running of the business is the agent. They -principal and agent- both have a central goal of ensuring that goods and services get to the consumers at the right time, place and at the right price. In the same vein, the agent is a channel member or intermediary in the marketing channel vested with the responsibility of mediating between a firm/ producer and the consumers.

Studies have shown that there is a significant relationship between agency and consumer purchase behaviour (Gordon-Wilson, Godefroit-Winkel, 2024). Agency highlights the important aspect of consumer behaviour in switching situations comprising information search and processing, negotiation and bargaining, monitoring and exchange of values in the form of incentives and customer utilities (Aish, Kortam and Hassan, 2008).

Nowadays consumers are becoming more and more educated and informed that there is becoming little or no need for agents in most businesses. Contrary to afore claims that the world is spherical, the World Wide Web has actually made the world flat in that information now travels at the speed of light and can obtained at the click of the mouse. Consumers do not need to travel across the globe before getting desired information; this has reduced the job of an agent as is one major reason for agency. It now beholds on the agents available in business to make customer satisfaction a priority, and not making their personal interests and those of their principals/ companies paramount.

The principal and agent are contract bound to ensure that consumers get the best possible services, in concordance with laid down consumer protection laws that put into consideration the protection of consumers and avoidance of harmful practices that puts the

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consumers' health and safety in jeopardy. Consumer protection refers to laws that seek to protect consumers' right, ensuring consumers' right to fair trade, and all relevant information that facilitates purchase, usage and disposal of goods and services. Consumer protection law serves as a watchdog that curtails and prevents businesses from sharp/ fraudulent practices capable of disrupting business-consumer relations.

Agency fosters the cooperation between different people with peculiar goals in an organization, and sees to the congruent achievement of these individual goals in line with laid down organization's etiquette (Namazi, 2013). Agency theory allows for cross-content between the producer and consumers in economic discipline, with the agent standing in-between as an intermediary to facilitate the smooth and easy transfer of ownership of goods/ services by providing consumers with the right information and follow-up to ensure proper delivery of the right product at the appropriate time and place.

Methodology

This is a qualitative study involving review of extant literature drawing inspiration from various scholars on management theories, behavioural theories as well as marketing theories that drive performance among firms. The paper queries the efficacy of studied theories on performance of firms' activities in modern day business practices. Consequently, reviews were x-rayed and conclusions drawn based on the outcome of these reviews and the applicability of the identified theories in modern day businesses. Lastly, recommendations are made for marketing performance and firms' advancement and growth.

Conclusions

From extant literatures reviewed, the study makes the following conclusions:

1. There is a significant relationship between identified firm theories and consumer behaviour
2. Most firms' employees are beginning to appreciate and gain insights of the use of the studied theory in relation to consumer behaviour to induce and influence consumer purchase decisions and achieving marketing success.
3. The studied theories are majorly applied in economics and contract law.
4. Of all studied theories, the theory of motivation was the most familiar and most applied in organizations' operations in relation to consumer behaviour
5. However, extant review of literature from previous studies revealed that firm employees were more familiar with the identified theories of the firm in relation to economics discipline than consumer behaviour in particular and marketing in general.

The relevance of the current study thereby underscores the significance and applicability of the identified firm's theories in consumer behaviour in particular and marketing in general.

Recommendations

1. The study recommends that the identified economic theories should be used as underpin for consumer research.
2. Utility theory should be adopted by marketing researchers to better understand the consumer in his quest to obtain value.
3. In addition to its use in explaining employee reward and loyalty, the theory of motivation should be widely adopted by firms to reward loyal customers and to influence lasting customer relations in consumer behaviour discipline.

4. The studied firm's theories are strongly recommended to marketing practitioners and customer-centric firms for marketing effectiveness.

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