

Financial management

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Corporate Value Maximization and Business Ethics Introduction Over the last century, business ethics has been a point of concern in many companies, a fact that has made awareness heightened over the same matter. This led to the curriculum makers in colleges to introduce a course concerning ethical concerns. Many of the concepts of business ethics taught in a traditional business curriculum may be misleading to the students. For example, the fact that business ethics teaches that the shareholder's wealth maximization, as a goal, is normally inconsistent with the ethical behavior in that particular business. On the real side of facts, however, the corporate goal of shareholder's wealth maximization does not cause any negative or positive effect to the weight given to the ethical consideration given by market participants (Donald & Nelson, 2000). This paper is therefore meant to research whether the two goals of business ethics and value maximization are conflicting or not.

It remains a traditional ideology where it was argued that wealth maximization is inconsistent with ethical behavior in a business. It has often been suggested that the people's desire for value maximization in general and shareholders' wealth maximization directly oppose the ethical concepts such as honesty, fairness and corporate social responsibility, or the good of the society.

In maximizing the firm's corporate value, an ethical firm may do this by maximizing the stock prices. In this way, the firm makes the stock as desirable as possible to investors. As we know, market prices can reflect ethics just as they can reflect other valuable items in the market such as cash flows. Investors who care about ethical issues therefore will the stock of unethical firm undesirable. This will make its stock price become lower than <https://assignbuster.com/financial-management-essay-samples-3/>

that of an ethical firm (Smith, 1992).

In our day to day life, if a manager would like to hire someone to perform unethical work for certain ill-gain in the business, they will have to part with much more pay than if they hired someone to do some ethical duty for them which will gain the business positively. From this, it is evident that one cannot get into any unethical behavior with an aim of maximizing the corporate value of the firm.

One of the ethical behaviors of managers in a business is that of corporate social responsibility. However, a firm that involves in corporate social responsibility lowers its ability to maximize its corporate value. For instance, a firm would like to donate some amount of money to a non-profit making organization to support a certain cause. By giving their donations, this goes contrary to maximizing value hence these goals are conflicting.

On the other hand, a firm that is known or is reputable for its ethical acts may be able to win more customers in the market and outwit all its other competitors. This is because consumers consider a firm's reputation to be connected with a product's reliability and quality. This firm will use much to carry out the ethical practices to itself and the society around, and at the same time, it will be improving on the future sales that will ultimately maximize the firm's corporate value.

Conclusion

In a nutshell, it is important for firms to keep to ethical practices whatsoever. Some ethical practices may require sacrificing the shareholders' wealth in the short run. However, firms should look at maximizing the shareholders' wealth in the long run. This is better achieved by maintaining the ethical practices all the time.

Bibliography

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