

Business ethics

Business



Any business operates on the principle of going concern and that it will continue to exist for a foreseeable future. This on-going nature of businesses therefore also involves certain groups of stakeholders which are directly and indirectly affected by the business. Most important stakeholder group which is directly affected by the well-being of a firm are shareholders whose equity is always at stake if firm is unable to perform. A firm is generally financed either through equity or combination of equity and debt wherein firm can raise debt to finance its operations instead of equity. The overall capital structure of the firm therefore can offer a critical insight into the overall well-being of the firm.

A typical capital structure of the firm therefore will include both the equity and debt and combination of both can actually determine whether the business is risky or not. A firm which has higher level of debt in its capital structure tends to have higher risk therefore its well-being is also not considered as good. On the other hand, if the firm is mostly financed through its own equity, its risk profile will be low and its overall wellbeing will be relatively good. Thus if debt is in higher proportion in the capital structure of the firm, it may not be healthy as it can serve as a risk indicator and investors may not chose to invest in such firms. Other stakeholders therefore may also get affected due to high probability of failure for such firms.

The overall capital structure of the firm will have different meanings and importance for different groups of stakeholders. Shareholders may not like to see more debt on the balance sheet of the firm because debt holders are always paid before the shareholders in case of liquidation of the firm. As such shareholders would see higher debt levels are detrimental to overall wellbeing of the firm. Lender will also view higher level of debt as well as low <https://assignbuster.com/business-ethics-essay-samples-10/>

level of equity as a detrimental sign for the firm. A lower level of equity for a lender would indicate that the overall stakes of the owners of the firm are relatively low as compared to external sources of financing. A prudent lender will therefore not prefer to lend to such firm because of low stakes of the owners of the firm. Higher level of debt, for a lender will be an alarming sign too because higher debt levels will increase the debt servicing expenses and higher debt services will have an impact on profitability of the firm and hence will affect the cash flows of the firm too to service new and existing debt. (McPhail and Walters) Labor unions will view higher equity more favorably however, may not be able to exercise their powers because owners can have greater control over the affairs of the firm.

Below is a snapshot of capital structure of Intel Corp¹

Long-term debt 7, 084

Stockholders equity 17, 036

Accumulated (loss) (781)

Retained earnings 29, 656

Total stockholders equity 52, 995

Some of the notes to the accounts for Intel Corp can be accessed at <http://www.intc.com/intelAR2011/financial/statements/note25/#n25> and at <http://www.intc.com/intelAR2011/financial/statements/note21/#n21> respectively.

Works Cited

McPhail, Ken and Diane Walters. Accounting and Business Ethics. London: Routledge, 2009.