

Example of finance essay

[Business](#), [Company](#)



Shareholders are the most important people for any business organization. They form the company as well as own the company. The shares issued by the organization are held by its shareholders. This makes them owners of the company. The shareholders lend money to the company and in exchange they are issued shares. They are also paid dividends whenever the company generates enough profits. The dividends are paid depending on the earnings of the company. It is thus assumed that the objective is to maximize the wealth of the shareholders. This can be done in the form of dividend payments, issue of bonus shares or right shares and increasing the value of shares. The shares are traded in the stock exchange where its value can be determined. Higher the value, more income will be generated. Shareholders do not take active part in the business. They only access the performance of the company based on the annual financial reports submitted by the company as per statutory requirements. An organization has various responsibilities towards the environment, economy and the society it functions in. Providing adequate returns to all the segments of the business is equally important. The shareholders should not be the only people to benefit from the progress of the company. All the work is done by the employees who work for the company, they should receive bonus as well as incentives for the goals reached. Outside of the company there are various segments which help the organization grow and maximize wealth. Shareholders can be placed at the top level but they should not be the only priority of the organization. The wealth of shareholders will be maximized whenever the organization grows and achieves new heights but that should not be the sole purpose for an organization. Certain times shareholders also

receive a huge part of the profit in the form of shares issued to them.

The reason for increasing importance of shareholder value is due to mergers and acquisitions which take place in a hostile bid. The importance has been increasing in US, UK and Germany. Only in profit oriented enterprises such importance is placed, in non profit organizations like hospitals, shareholder value is not of central importance. Instead provision of services is extremely important. It is not correct to assume that the shareholder wealth maximization is the goal or objective of an organization. Various decisions taken by the organization may affect the shareholders and could eventually be beneficial to the shareholders but it does not mean that its objective is to enhance the shareholders wealth. There are different criteria for profit organizations and non profit organizations. The question of wealth maximization of shareholders is only for profit based organizations. As for not for profit organizations, there are various goals like providing service and empowering the society. No question of shareholders wealth maximization arises here.

The problem arises when all the decisions are taken based on cost benefit analysis. This is one reason why it is assumed that the objective is only shareholder wealth maximization. A monetary value is required to be assigned to any cost or benefit that may incur to an organization. The shareholders also generate wealth with the capital gains from the shares. The main objective of an organization should be an increase in the customer base, it should be to maximize the earnings of the company and aim for growth and expansion of the company. The financial objective may differ from the above. Financial objective is completely different from the main

objective of the company. The financial objective could be maximization of wealth of the company as well as its owners. The shareholders are the owners of the company in one way.

On account of the stakeholder theory which states that managers should make decisions to benefit the shareholders, as against the value maximization theory which states that the managers should make decisions which add value to the firm. One issue which arises is that should the firms have a single minded objective or not. Also if the objective can be maximization of value or anything else. It could also be expansion of customer base or improving employment. The study also states that one a single objective will bring out a purposeful behavior because having multiple objectives is like having no objective at all. Apart from maximization of shareholders wealth, the organizations should look into maximization of the firm value which will eventually bring benefits to the society as well as the economy as a whole. Maximization of the total market value of an organization will benefit the employees as well as the shareholders because it will lead to maximization of the value of shares, debt etc. Profit maximization is usually the sole objective of any organization. With increasing profits, social welfare is a responsibility. The social welfare will benefit the economy at large and also benefit the organization in the long run. The objective of shareholders wealth maximization is not appropriate, the manager should look into all the aspects which can affect the firm. The decisions should be based on the benefits that the firm will earn in the long run. An organization has different aspects which affect the business. Social welfare should be a part of the objectives of the organization. The manager

has to choose between competing interests. It might be profitable and easier to choose the stakeholder theory but it is not the right decision. Stakeholder theory gives special attention to those who wish to use the various resources of the organization for their own benefits. This is not advisable for the growth and development of the organization.

Earlier it was believed that only shareholders placed risks via their investments and hence maximization of their wealth was important. The view does not hold true now as shareholders are not bearing all the risks even employees carry a certain amount of risks. Shareholders can diversify their risk as compared to other stake holders. It is truly believed that the objective should be maximization of value of firm which includes employees, creditors, debtors and the society as a whole. Maximization of shareholders worth will not benefit the rest of the segments but maximization of the firm will lead to benefits for the society and the employees. Each individual in the firm should believe that the objective is maximization of the firms value, this will provide an incentive to increase their productivity as well as increase the trust in the organization. Social welfare should form an integral part of the objectives of the company. Each organization should give back to the society at least a certain amount of its earnings. Shareholders should not be the only beneficiaries of the organization's earnings.

Hence stakeholder theory is definitely gaining popularity in the business world but it is not a right method of profit maximization. What is important is the increasing productivity, optimal use of resources and social welfare. A single objective does not necessarily mean the maximization of profits. A manager has to choose among the most important and less important

objectives. Only then will the business be well managed and optimized. To generate maximum revenue is a part of the objectives of a business but it should also be equally beneficial to all working towards the goals of the company. Not only the risk bearers but each individual who is contributing towards the company.

Bibliography

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