Standard financial investment case study

Business, Company

Debt and equity financing for an investment outsource

In the investment of technology, in an organization, the stakeholders will consider the benefits that will ensure that the value, share and wealth are raised. To consider the debt or the equity financing, they will evaluate the level of returns. Debt financing is where they take a loan so as to invest in technology development. Even though it does not dilute the business ownership, it has a number of shortcomings. Money must be paid in spite of the business success. It requires commitment of the business assets and to the extent of the personal assets as collateral.

On the other hand, equity financing is the exchange of capital ownership of the business resulting in the sharing of the profit. Negotiation of the price with shareholders is directed towards the potential return expected after incorporation of the technology in the company. The investors have a great concern of the performance due to the returns they are to get back. Technology advancement is the key step of increasing the return. A company that needs to invest in technology must make a wise decision. Equity outsourcing is the best choice to for technology advancement in a company.

How investment in IT raises the value of stakeholders

Standard financial information and also criteria are needed to evaluate Information Technology (IT) outsourcing effectively. They are the key factors that make the management of an organization decide on the nature of the technology to be incorporated in the systems (Schniederjans & Hamaker, 2010). The information concerning the financial investment of the organization and the criteria of how they are to be achieved is considered while outsourcing technology to be applied. They must have a mutual means to raise the value of the share of the company. The main consideration is if the investment decision with reference to IT, capital budgeting and risks involved would lead to a positive return to the company (Mahmood, 1998). If the application of a technology increases the returns and lower the risks, the management should go for that technology.

Benefits of equity outsourcing

Equity outsourcing of IT has many benefits to the company. It leads to the development of the company through transformation and growth of productivity (Carmel & Tija, 2005). Technology helps in making increasing efficiency hence leading to mass production. In companies that employ large scale production, with the help of the relevant technology, they meet the demand at a considerate time. The second benefit of equity technology outsourcing is a performance improvement. This makes the company achieve the full potential of optimum production. Equity financing reduces resources wastage hence allowing for maximum utilization of the available resources in a company. If these resources are effectively and efficiently incorporated with the technology outsourced, there are improvements in the production of goods and services.

Thirdly, the automated machines are applied in controlling production and are efficient as per the programming. This makes the company to produce the products as they are required (Rivard & Aubert, 2008). This reduces the chances of flooding goods in the market due to overproduction and also controls deficiency of the same goods. It helps to balance what to be produced in regard to what is in the market. The chances of the good expiring in the store are reduced.

The reasons why the company should outsource technology

Leasing of the technology helps the company focus on the line of production. The first reason is an improvement of expertise. Most of the functions that are outsourced are from experts in that field. They have specific equipments and technical expertise making them productive when developing technology. This makes the results of the task effective; therefore, it is completed fast and with quality output. The second rationale of technology outsourcing is the concentration on the major process instead of supporting the developed ones. This gives the company a chance to concentrate on its functions and not worry about supporting the new developed technology. It concentrates on production and other core processes of the business. This saves time and the cost of maintaining the developing technology.

The other importance of outsourcing of technology is that the risk is shared between the provider of the technology and the company. When outsourcing components of technology, it is led by the issue of risk analysis. This helps the company to shift some of the responsibility to the provider of the technology (Kobayashi, 2005). Since the provider of the technology is a specialist, the plan of risk mitigation is well addressed. Finally, it reduces operational and recruitment cost. Equity outsourcing removes the need of hiring individuals to come and develop the new technology. This helps in saving some funds which would have been used to develop technology. Therefore, the funds are directed to other lines of production.

Impact of outsourcing technology on the shareholders value

The impact of outsourcing to the shareholders of the company is the increase in revenue. This makes their share to be high because some of the costs are foregone. The risk of the outsourced technology is shared with the providers. Due to the sharing of that risk, the providers the technology are concerned on the whole system (Martin, 2008). This makes them take proper mitigation so as to reduce the chance of the risk. Finally, the shareholders enjoy the technology and utilize it in the intended fields. This increases the productivity due to the fact that minimal time is spent on the technology. At the end, they achieve their goals in the technology investment and the standards.

References

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