

# Shareholder vs stakeholder value essay sample



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“ The primary role of management is to maximize the wealth of the shareholder. ” “ Financial management should include not only a concern for profit maximization but also for maximization of societal value. ” The stakeholder theory defines the main objective of each and every organization. It is to be able to maximize the wealth of the firm by increasing its stock price. By defining the wealth of the firm, it is also defining the stockholder who own shares of the company. The parallelism of the stock price’s value and the stockholder can be seen in this theory.

As the stock price goes up, so does the individual owner’s net worth. It is advantageous for an organization to direct its financial management toward maximizing stakeholder wealth because of several reasons. The first one is that the goal of shareholder wealth maximization is long-term. It is a function of all future returns to the shareholders. This drives management to always take in to consideration the long-run cost and benefit of each decision being made and how it will affect and maximize shareholder wealth.

Second, management will always align decisions based on what will maximize shareholder value. This will guide all management activities to maximize not only shareholder value, but the value of the firm itself as well. However, maximizing stakeholder value should not only be the sole driver of a firm’s financial management. It has several advantages that could drive a company’s financial management success but it should also be able to strike a balance between stakeholder wealth and other stakeholders’ interests.

It has also been criticized that while shareholder wealth is being maximized, other stakeholders’ welfare are sacrificed. What may be for the higher value

of the company might cause other stakeholders. For example, environmental issues may simply be foregone if the returns from a certain product (which causes environmental problems) are too high to sacrifice. Another may be maximizing production at the expense of manpower effort. There are several other examples that push for a maximizing a company's value.

Some may be for the benefit of all stakeholders involved and the others may simply be for shareholder wealth. A competitive business in today's world should be able to strike a balance between maximizing shareholder value while at the same time taking into consideration each and every business stakeholder's welfare. Maximizing shareholder value is of course important but it is not the full backbone that should support a company's financial management system. Other stakeholders also contribute to maximizing the company's value in ways that may not always be measured financially.

A business organization is valued highest if it is not only able to maximize shareholder value but as well as societal value. Although societal value may not be fully measured financially, it enriches the company in many ways. Not only is it able to take care of the business' profit, but also the people and planet as well. Maximizing societal value may entail sacrifices for the company or even cut down profit, but finding the balance to include people and planet into the entire financial management system of an organization is the best solution to bring the company to its full realization.