

PERCEPTION ON SHAREHOLDERS' VALUE MAXIMIZATION: A CONCEPTUAL STUDY

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Abstract:

Value maximization is a term which has been widely used by scholars and professors from last decade and there are certain studies which prove that selected value measures create value to its shareholders or not. Even though there are more than 5000 articles published on EVA (Economic Value Added) concept, nonetheless there are no companies who have taken an interest to prepare and publish EVA Reports. This paper examines whether Indian companies prepare EVA reports and publish them to market with regard to maximize shareholder value. To attain, the study conducted a survey and collected 312 samples from various respondents like company management, investors, professors and others. The study revealed that Managers should not have the multiple targets during the period of time for creating wealth otherwise may misinterpret the term maximization. Another finding is that managers expect incentives to pursue targets from the company. Managers made long term and short term goals for pursuing shareholder value maximization in order to create wealth for their shareholders, in this regard proper efficient training is required for preparing EVA reports. Furthermore, Investors, analysts and fund managers are not concerned to know the EVA in their decision making, because there are a lot of complexities and there is no perfect computation of EVA due to certain adjustments.

Keywords: Value Maximisation, Performance, Targets and Chi share test

INTRODUCTION

The study examines whether they are pursuing shareholders value maximization or not and whether managers' decisions are consistent with their goals towards shareholders value maximization. Moreover, the study investigates shareholder technique create value to their shareholders and is it required to publish in to the market along with other financial reports like cash flow statement, comparative statements and ratio analysis. To find out, Firstly, the study collected primary data from company managers, stock brokers and financial experts through questionnaire. Second, the study examine whether they use shareholder technique in their financing decision and investment decision towards maximizing shareholder value. Finally, study investigates whether Economic Value Added (EVA) technique communicates information accurately to institutional investors and analysts. The study relies on a survey of 20 listed cement companies in Bombay Stock Exchange, India and conduct questionnaire method for collecting data from the various eminent personalities. The study also examines company managers' goals, targets and study their valuation metrics and examine whether particular stock-price performance movements is better when the company pursue shareholder value maximization and use suitable techniques.

RESEARCH METHODOLOGY

Objectives of the study:

- To know whether the companies, investors, analysts pursue shareholder value maximization in their decision making.
- To study whether value measures communicate accurately to institutional investors and analysts.

Sources of Data:

After the selection of the sample units the primary data were used for the study. The primary data have been collected through primary sources like Google questionnaire and direct methods like email, Whatsapp, printed format etc.

Tools and Techniques

The chi-square test is applied for this study intended to test how observed frequency data fit with distribution that is expected data with regard to whether shareholders value maximisation create value and it is required to publish EVA reports in to the public or not. This approach consist three steps (a) statement of hypothesis (b) Formulate of hypothesis (c) analysis of data

(a) Statement of Hypothesis:

H₁ = shareholders value technique create wealth to its shareholders

H₂ = Operational and social targets helps to the company for creating value

H₃ = Publish Economic Value Added reports along with financial reports

H₄ = Shareholders value measures communicate accurately to institutional investors and analysts

(b) Formulate Analysis:

The study applied chi-square test with significance level 0.05 by using sample data for the selected variables such as shareholders value measures create wealth or not and is it required to publish EVA reports in to the public.

DATA ANALYSIS AND INTERPRETATION**DEMOGRAPHIC ANALYSIS****Demographic profile of the Respondents**

	Variable	Frequency	Percentage
Gender	Male	79	70%
	Female	33	30%
	Total	112	100
Age Group	30-40	40	36%
	40-50	65	58%
	50-60	07	06%
	Total	112	100
Educational Qualification	Graduate	11	10%
	Post Graduate	74	66%
	Doctorates	27	24%
	Total	112	100

INTERPRETATION:

The above table shows the demographic analysis of the study. The gender, Age group and Educational qualifications of the respondents were chosen for the analysis and classified. 70% of respondents are Male to this study and 30% respondents are Female. It can be observed that maximum number of respondents was male. Regarding age group, 36% respondents were below the 40 age, 58% respondents falling between 40-50age and 06% respondents belonging to more than 50 years age. From the above table it is observed that more respondents fallen between 40-50 age. Moreover, regarding educational qualification 10% respondents are Graduates, 66% respondents are post graduates and 24% respondents are doctorates. It is observed that most of the respondents are post graduates.

Chi

S.No	Variables	(chi-square) X²	Significance level	P-value	Accept/Reject
1	Shareholder value maximization technique result in creating wealth for the shareholders	66.8	0.05	0.004	H1=Accepted
2	Operational targets and social targets helps to the company for creating value to the shareholders	113.0		0.023	H2=Accepted
3	It is required to publish EVA reports along with financial annual reports of every year	74.1		0.011	H3=Accepted
4	EVA communicates information accurately to institutional investors and analysts	70.4		0.031	H4=Accepted

(c) Analysis of data:

Since p-value (0.004) is less than significance level (0.05). Therefore, the study accepted hypothesis statements. Thus, the study concluded that shareholders value maximization creates wealth and it is required to publish EVA reports in to the public for understand economic value as well as wealth of the company.

FINDINGS

With regard to type of targets 64% management of the company attempt to achieve expected that maximization of shareholders wealth, 20% expecting maximize current profits, 8% expected maximize customer satisfaction and. According to the data given that wealth creation through EVA is 58% whereas company managers working for shareholder value maximization even when stock prices decline. 64% of company managers encourage the accountants/analysts to prepare Economic Value Added reports and publish along with financial reports.

As per data 66% respondents agree that the EVA communicates information accurately to institutional investors and analysts and 2% respondents are disagree with it.76% responds, Company Managers identify with the goal of shareholder value maximization. According to data 70% said that shareholder value maximization and stakeholders' interest satisfaction play a key role in creating profit for company. 68% data given evidences that managers make long term and short terms goals for pursuing shareholder wealth maximization and 2% respondents are disagree with this statement. With regard to pursue shareholder wealth maximization 80% company giving adequate training to the strategic manager's towards objectives of the business.

Conclusion:

The studyinvestigated and collected 312 respondents with regard to perception of value maximization. The study revealed thatManagers should not have multiple targets during the period of time for creating wealth otherwise may misinterpret the term maximization. The studyfound that themanagers expect incentives to pursue targets from the company. The study found that company provides some managerial benefits to the executives. Managers made long term and short terms goals for pursuing shareholder value maximization in order to create wealth for their shareholders, in this regard proper efficient training is required for preparing EVA reports.Furthermore, Investors, analysts and fund managers are not concerned to know the EVA in their decision making, because there are lot of complexities and there is no perfect computation of EVA due to certain adjustments.

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