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The Importance of Shareholder Value in Decision-Making

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Osakkeenomistajan arvo on aihe, joka on tänä päivänä noussut monen yrityksien kohdalla tärkeäksi arvoksi. Monet yritykset eri alueilta ovat implementoinut kyseisen toiminnon omiin tavoitteisiin, mutta yrityksille jotka toimivat rahoituksen alueella on kyseinen toiminto ollut hyödyllinen uusista sijoituksista yritykselle.

Osana tätä tutkimusta on tarkoitus tutkia miten osakkeenomistajan arvo on implementoitu yrityksen tavoitteisiin ja kuinka tärkeää osaa osakkeenomistajan arvo osana päätöksen tekoa, jonka avulla tässä lopputyössä voidaan ymmärtää arvon tärkeys.
Osana teoriaa on käytetty teoriaa joka selittää kuinka osakkeenomistajan arvo voidaan implementoida yritykseen tavoitteisiin ja teoriasta löytyy myös viitteitä siihen, kuinka yritykselle on mahdollista neuvoa, miten voidaan muuttaa yrityksen omat tavoitteet, jolloin osakkeenomistajan arvo on otettu huomioon.

Empiirisessä osassa käytettiin kyselyä jolla on selvitetty, kuinka yritykset näkevät osakkeenomistajan arvon ja onko sitä otettu huomioon päätöksien teossa. Kysely oli suunniteltu tutkimusta varten ja kysymykset oli tehty niin, että yrityksillä oli mahdollisuus antaa oman arvion osakkeenomistajan arvosta.

Kyselyä on lähetetty valitulle yrityksille mutta monelta yrityksiltä vastaukset jäivät tulematta, joten oli päätetty lähettää kyselyn uudemman kerran toisille yrityksille, tällöin saatiin vastaukset Nordelta, johon tutkimus myöskin perustuu.

Tuloksista voidaan päätellä, että osakkeenomistajan arvo on nykyään paljon enemmän otettu huomioon, kun aikaisemmin ja tämä päivänä on myös lisätty moneen yritykseen omiin tavoitteisiin.

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ABSTRACT

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The shareholder value approach has been a topic that has recently become important amongst companies in different fields. However, this topic is very discussed in the financial field. Companies that have successfully taken shareholder value approach as a part of their decision-making process have gotten a higher return on investments and can, therefore, ensure the flow of future investments.

An area of this thesis is to study the importance of shareholder value in decision-making process. Both the objectives of company strategy and the actual management decisions are important for the company performance. It was studied how the shareholder value is considered among financial companies when analyzing the company performance.

In the theoretical framework theories about the shareholder value approach were used to support the study. The theories of shareholder value approach gave a clear image of the specific tools that the top management can use in implementing the shareholder value into the company objectives.

As part of the empirical framework, qualitative research methods were used in the study. A questionnaire was designed for this study with open-ended questions giving the chosen companies a choice of elaborating their perspective about the shareholder value and how it is handled inside the company. The companies were chosen from the financial sector and the first batch of questionnaire was sent to companies focusing on investments. However, the response rate was lower than expected, which lead to sending a second batch of questionnaires and these were also sent to traditional companies including commercial banks.

In the results it was discovered that shareholder value approach is important and when it is implemented correctly from the top management, can function successfully and ensure a flow of future investments. Nordea has been able to ensure a high return to its shareholders by implementing shareholder value in all of its business units.

FIGURES

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1. INTRODUCTION

The shareholder value approach has been widely discussed in the business world for a period of time.

The shareholder value is defined as a company objective that has shareholder wealth as it's highest priority. It has also other purposes inside the company, which includes maximize value through policies that enhance company earnings, maximizing market value of company shares and increase both the amount and frequency of shareholder wealth paid.

The main reason for making this study is to find out how companies implement shareholder value in the decision-making process. Decision-making is an important part of a company strategy, and therefore, one of the reasons why companies use this amongst decision-making process in the top management.

As part of the company evaluation process, which is done after a period of time, it has been found that many companies from the financial field have been using varying formulas.

These formulas evaluate the overall company performance and can give a valid image of the performance of the company, however as can also be found in the theoretical framework, different formulas have been used including Net Present Value (NPV) and Economic Value Added (EVA). These traditional measurements evaluate the company performance and can give an idea if the company is maximizing its profits. All of these measurements lack the ability to assess the shareholder value and lack any kind of dimensions in understanding the most important aspects of the shareholder value approach.

A part of the decision-making process includes the thought process when selecting a good decision. For each decision, it is important to carefully consider positives and negatives of each option. The decision-making is considered effective, is it important foresee the outcomes.

The management decision is an important step of the decision-making process and when done correctly, can be implemented as well into the various company strategies for improvement and maximizing the company profit.

1.1 Objectives of the study

The aim of this study is to find out how companies are implementing shareholder value as part of their objectives and management decisions, and therefore, part of short- and long –term decisions.

1.2 Metholody of the study

The main focus in this study will be in the qualitative research methods to find if companies from the financial field have been successful is doing so. In the empirical framework, the results are based on Nordea's answers and it can be found where the shareholder value approach has been implemented successfully.

The shareholder value approach has grown as a big topic in the recent years, and since its arrival. Many companies have picked this up as a part of the implementation process. As mentioned in the empirical framework of this study, the case Nordea is presented in the empirical framework; however, the main focus is on Nordea's approach which was found in the questionnaire that was sent out.

1.3 Structure of the study

The study is divided up into sections and will be presented as follows:

Chapter 1: Introduction

Chapter 2: Theoretical framework

Chapter 3: Empirical framework

Chapter 4: Conclusions and discussions

Chapter 5: Future studies and recommendations

As part of the introduction will have a brief description of this thesis, however, the description will not be as through as the other chapters of this study.

In the theoretical framework the research question will be explained and a set of arguments will be presented that are backed up with theoretical findings. The importance of understanding the overall topic is explained in this part of the study.

As part of the empirical framework, a qualitative approach has been conducted to find out if the shareholder value approach has been implemented into the decision-making process as well as part of the management decision itself.

The study is conducted by sending out a questionnaire regarding the topic of this thesis and the questions were designed to answer the research question. The questionnaire has ten questions which are open-ended so that the companies have a chance to add their own perspective to the study as to the shareholder value approach.

In the conclusion and discussion part of this study, the answers from Nordea are analyzed in depth to understand the importance of shareholder value and its affects in the company itself. From the answers and based on the other case study, the link between shareholder value and company profit maximization can be made. As part of the discussions, there will be an overall discussion of shareholder value and how this can be successfully implemented into decision-making process as well as in the management decision itself.

In the last chapter of this study, the future of this topic will be evaluated and recommendations based on both theoretical and empirical framework will be presented.

1.4 Limitations of the study

The limitations of this study are both the questions themselves and the low response rate from the chosen companies. The questions were designed based on the information that was part of the theoretical findings, and therefore, is it possible for the questions not to be as specific as they should be. The low response rate made the study in the empirical framework difficult, because the empirical study is based on Nordea's answrs, which will give only one perspective onto the topic of shareholder value approach.

2. THEORETHICAL FRAMEWORK

DEFINITIONS OF MANAGEMENT DECISIONS

As mentioned in the introduction the purpose of this thesis is to find out how companies in the financial sector implement shareholder value into decision-making of short term and long term goals.

The importance of understanding the definitions of management decisions and effective management is to be able to understand the shareholder value approach.

Decisions are the core transactions of organizations. Successful organizations "out decide" their competitors in at least three-ways: they make better decisions, they make decisions faster and they implement decisions more.(Harrison,2006)

The significance of management decision derives from the fact that these decisions affect every function of the company. In most companies will the decision from the top management will be the last standing order when changing the different functions of the company. When focusing on the management decisions, there are three main points taken up, including the decision-making process, the decision maker and the decision itself.

These points of emphasis are appropriate for most types of decision making. However, management decisions, because of their unique significance and distinctive complexity, require a broader scope within which concentrate our emphasis. There are at least four principal areas for management decision that demand a singular and penetrating focus. (Harrison,2006)

The first area to focus on of the four important principles of the management decision deals with the managerial decision maker. This has to do more with the behaviors of the decision maker rather than the actual management decision. The behavioral values of the decision maker put tremendous weight on what type of decision the decision maker will make.

This behavioral focus is often centered on the propensity of the decision maker toward risk acceptance or risk avoidance as well as the influence of the subconscious mind on the decision maker's preferred choice. While important in its own right, a behavioral focus provides an incomplete perspective on management decision. (Harrison,2006)

The management decision focuses on the specific organization where the decision maker is currently focused on. The management decision is mostly make as a pursuit of improving the organizational functions. The organization and the management decision live in a coexistent relationship.

Thirdly, the managers and organizations contribute to a sub-system in which the company is part of a larger external environmental system. The most relevant external environment includes the stakeholders that have invested in the outcomes of the managerial decisions made by the management maker.

Lastly, the outcome of the management decision is as important as the other three principles of the understanding of the management decision.

The outcome of management decision embodies the results that management expects when the decision is made. The outcome constitutes a primary focus of management decision simply because it reflects the managerial attitudes that prevailed when management made it. (Harrison,2006)

The mindset of the decision maker will determine if there are attempts to maximize the outcome of the managerial decision. The managerial expectations regarding the outcome will provide a primary focus on the management decision. The characteristics of the management decision are as important as the mindset of the decision maker. The management decision has to derive from an objective that has a soul purpose of benefitting the whole organization. The decision needs to represent the best alternative from a set of alternatives.

The functions of the decision-making have been evaluated widely in the business literature.

Decision-making functions

Setting managerial objectives	Decision-making commences with the setting of objectives; and a given cycle is completed on attaining the objective that is initiated the cycle.
Searching for alternatives	Search involves scanning the internal and external environment for relevant information from which to fashion a set of alternatives likely to fulfill the objective.
Comparing and evaluating alternatives	Alternatives are compared and evaluated using applicable techniques and criteria related to the objectives.
The act of choice	The decision maker selects a course of action from among a set of alternatives.
Implementing the decision	The decision is transformed from an abstraction into an operational reality.
Follow-up and control	Ensuring that the implemented decision has an outcome coincident with the managerial objective that initiated the process.

(Figure 1, Decision-making functions, Harrison, 1996)

Secondly to the functions of decision-making, must the dimensions also be evaluated. As shown in Figure 1, the path of decision-making process can be seen. All of the decision-making functions needs to be processed for the decision-making process to become complete.

The dimensions of decision-making process deals with a more detailed overview of the process. The dimensions of decision-making is identified from what level from the organization, the management decision will start.

Secondly the significance of the management decision is evaluated, and after this the rationality of the management decision is discussed if this can be made into strategy and this is mostly considered for the company's long-term strategies.

The last two steps are considered after the management decisions have been put into action. The last steps cannot be evaluated straight away, but rather after a period of time.

Dimensions of Decision-making

Organization	The locus of management decisions is formal organization. Practicing managers in pursuit of organizational objectives make management decisions and theses objectives constitute the essential underpinning for management decision.
Level	Top management makes strategic decisions and other less significant management decisions are made other managers inside the company.
Significance	Management decisions are essential to the long-term wellbeing of the entire organization. These decisions constitute the most significant activity of management. The ultimate measure of organizational effectiveness and managerial success is a track record of decisions that measurably contribute to organizational growth and prosperity

	(Harrison and Pelletier, 1999).
Rationality	Management decisions are eminently rational in that they are unalterably oriented toward the attainment of the organization's long-term objectives. No other type of decision can justifiably make this assertion.
Strategy	The strategy of the total organization is keyed to management decisions. Strategy indicates how and when the organization's objectives are to be attained; and the attainment of the objectives is accomplished through management decisions. Therefore, strategy is an integral part of management decisions.
Outcome	The expected outcome of an given management decision is the attainment of the objective that initiated the managerial decision-making process. Successful outcomes are more likely to ensue from a managerial altitude oriented toward satisficing rather than maximizing a given result.
Uncertainty	The presence of uncertainty attendant on a given outcome is a constant in management decision. Uncertainty can never be eliminated from management decision. However, its occurrence can be reduced to acceptable proportions through the assimilation of the theories and concepts.

(Figure 2, Dimensions of Decision-making, Harrison,1996)

2.1 Definitions of Shareholder value

To fully understand how the shareholder value works from the company perspective, it is valuable to understand what shareholder value is. According to Economics Times shareholder value is defined as: Shareholder value is the value which is created by the company to its shareholders.

Increasing shareholder value has become a strategically important part of the decision-making process. Recently, many companies have started to implement shareholder value principles from strategy development to performance measurement and these principles are implemented into all business units of the company.

Recent surveys have been indicating that many public and private companies have strong interests in managing value. This shows how the shareholder value has become more important for the top management to consider as a part of their strategy. When using shareholder value in strategic evaluations for the future plans, it is important to understand how managers use shareholder value.

Shareholder value involves managers giving priority to the interests of a single stakeholder, the investor, instead of seeking to balance the interests of multiple stakeholders, as in traditional theories of the firm, or to maximize managerial rewards, as in revisionist analyses. (Martin,Casson,Nisar,2007)

Shareholder value has been linked with theories of investor engagement and therefore has similar objectives and ideas towards creating a single value for each shareholder. Shareholder value both encourages top management to focus on individual investors and it also creates a value system, whereas the top management have the possibility to monitor the performance and the effectiveness of the decisions.

Shareholder value as a single concept cannot function properly, however if it is tied with the corporate governance of the company. These two concepts works as support systems for the company.

Constructing the institutions of shareholder value forms of corporate governance involves four elements directly relevant to investor engagement. The first element is defining and determining the interests of principles and their agents. The second element is establishing the mechanisms for monitoring the performance of agents and disciplining perceived malfeasance. The third element is the process of molding the perceived interests of principals and agents, to establish congruence between them. The fourth element is providing incentives for agents to maximize performance in the pursuit of principals' interests. (Martin,Casson,Nisar,2007)

2.2 Maximizing Shareholder value

Decision-making and setting performance targets for the company are as equally important to achieving business success. A part of decision-making is setting targets as short-term goals for the company. Targets provide explicit direction to the organization and motivate management to strive of forever-higher levels of performance.

By increasing the number of top-down targets, the corporate center winds up macro-managing the business, line item by line item, ultimately compromising the strategic decision-making of line management. (James,Gillis,Scott,1998)

Many managers have come to believe that a company needs many targets are better than fewer, which on the other hand creates an unclear path for the whole organization. It has been shown that management styles have a deep impact on targets made for the company.

Committing to a governing objective and performance goal for the entire corporation. Translate the goal into a single overriding, measure of performance. Establish a decentralized strategy development process that empowers the business unit to define the best approach for achieving the governing objective and produce a set of bottom-up, customized performance targets for each business unit. (James, Gillis, Scott,1998)

Maximizing shareholder value, the company needs to create an efficient performance, retain a motivated workforce and have an intense focus on delivering benefits to all shareholders.

Secondly the company needs to adopt shareholder value as part of governing objectives. To do so, the company automatically adds shareholder value as criteria for the strategic planning and decision-making. In this way, the criteria are adopted on all business levels of the organization. For the company to be able to maximize shareholder value, it requires the company to make a continuous search for corporate and business strategies that will create the biggest contribution to the shareholders.

In short, maximizing value is a far higher standard of performance because it focuses the organization to find the best possible way to run the company. Many early adopters of maximizing shareholder value have translated this objective into an explicit shareholder performance measure called relative total shareholder returns. Relative TSRs are a measure of the dividends and capital gains produced for shareholders over a particular period of time relative to the TSRs of competitors or peer companies. (James, Gillis, Scott, 1998)

When a company has decided to make shareholder value part of its governing objective, it puts pressure on the company to continuously having to change and find new improvements. Part of the success of maximizing shareholder value deals with the amount of "doubling duration", which means it's classical sense if the company wants to double its shareholder value in three years, then each business unit needs to double its shareholder value at the same pace. It has been proven that the most effective internal measurement for value creation is economic profit.

Committing to a governing objective of maximizing shareholder value and establishing a quantifiable measure of shareholder performance- relative TSRs or doubling duration- is a crucial first step in achieving superior shareholder performance. The next step is translating this governing objective and shareholder performance measure into an internal measure of shareholder value and internal targets for achieving superior total shareholder returns. (James, Gillis, Scott, 1998)

The investors base their contributions according to their expectations of future economic profits, discounted at the cost of capital. These expectations influence the stock market prices of the company.

Management needs to give more precise targets for each business unit of the corporation, and therefore emphasize the importance of shareholder value.

The key advantage of this bottom-up approach to target setting is that responsibility for making strategic trade-off decisions lies where the best information exists- at the product/customer interface. (James, Gillis, Scott, 1998)

Using the bottom-up strategy gives the management more insight inside all the business units and the management can affect the different business units' way of planning strategic goals.

It has been found, that many companies today have failed to recognize the importance of shareholder value and the link between shareholder value and company profit maximization.

Using shareholder value approach as part of the company objectives has proven to be an affective measurement of the capital market and keeping shareholders interested in the effective market. The shareholder value approach can be successful when the top management has implemented shareholder value as part of the decision-making process.

2.3 Shareholder value drivers

As mentioned above there is a linkage between value drivers and shareholder value, and therefore it is important for the management to be able to identify the specific value drivers.

The most common shareholder value drivers used for assessment in companies.

Growth Rate	- Maintain competitive prices - Pursue market-share opportunities to gain scale economies in production.
Operating profit margin	- Achieve relevant economies of scale for each of the value activities. - Introduce mechanisms to improve the rate of learning. - Search for cost-reducing linkages with suppliers product design, quality, packaging and order processing. - Search for cost-reducing linkages with channels. - Eliminate overhead that does not add value to product.
Working capital investment	- Minimize cash balance - Manage accounts receivable to reduce average number of days outstanding. - Minimize inventory impairing required level of customer service.
Fixed capital investment	- Promote policies to increase utilization of fixed assets. - Obtain productivity-increasing assets. - Sell unused fixed assets.

	- Obtain assets at least cost.
Cost of capital	- Target an optimal capital structure. - Select least-cost debt and equity instruments. - Reduce business risk factors in manner consistent with strategy.

(Figure 3, Shareholder Value drivers, Rappaport, 1998)

In Figure 3 are the most common value drivers that companies are using when assessing the competiveness of the company. Many companies have different levels of management and therefore it is important to implement these strategic management decisions to focus on creating shareholder value.

Understanding the drivers of the business that are most critical to value creation enables management to focus its analysis more efficiently on key elements of a strategy. (Rappaport,1998)

The importance of strategically understand the different value drivers are the key aspects for the top management to evaluate the results more specifically.

To understand better what management need to consider when evaluating the shareholder value of the company is based on values. Value is abstract in its nature, managers need to know more concretely and clearly the target measures that derive the value of their business. In this model common financial variables and their variations are used as input variables to synthesize the market value added (MVA). (Kee. S. Kim, 2004)

2.4 Shareholder value and effective capital market

The importance of shareholder value has a strong link to an efficient capital market. The capital market is the means to allocating resources from less to more profitable ones and therefore more socially productive uses in a more timely manner.

The shareholder value corporate governance regime provides the institutional framework for the effective operation of capital markets. The development of capital markets which efficiently maximize shareholder value depends on establishing the appropriate institutional, legal, and cultural preconditions which foster effective corporate governance systems and align the interests of senior managers with those shareholders. (Martin, Casson, Nisar,2007)

The first precondition for an effective capital markets deals with the institutional conditions and it relates to the integrity of information, the ability of adequate information on corporate performance and the means of availability of evaluations.

The second precondition includes the rights of shareholders. It supports an effective evaluation process of the management performance.

The first one deals with the legal regulations of corporate procedures, exclusively the responsibilities and roles of the board of directors, including the oversight role of non-executive directors. The second aspect deals with the legal regulation of information intermediaries, including disclosure and conflicts of interests.

Thirdly, the cultural precondition is the creation of an environment of high trust, and especially the trust between economic relationships.

Trust may be personal, based on the knowledge of the character of the individual parties, or contractual, based on the acceptance of written commitments, underwritten by third parties and the legal system. Personal and contractual trust coexist. (Martin, Casson, Nisar, 2007)

The trust between economical relationships is linked to the effective capital market, and therefore have an importance for transparency of information over the capital market. Furthermore, the importance of shareholder value grown as a critical aspect for companies through the years.

There are six major sets of reasons for the growth of shareholder value as the driving force of capitalist development as is shown in Figure 4.

The first set of reasons	Financial development
Second set of reasons	Political development and changes in the environment
Third set of reasons	Economic and related to changes in the structure of the economy
Fourth set of reasons	Comparative international economic performance
Fifth set of reasons	Internationalization of capital flows
Sixth set of reasons	Academic specialism and growing the popularity of rational social choice theory

(Figure 4, Set of reasons of shareholder value growth, Martin,2007)

From Figure 4 it can been seen how shareholder value and effective capital market support each other. For a company to be successful in the capital market and maintain the market share, it is important to offer transparent economical information to gain trust among shareholders.

Most companies today relay on the amount of investments from the shareholders and that is how shareholder value needs to be created and maintained. Therefore, many companies have created investor engagement management to be able to maintain investor relationships currently and for the future funding aspects.

The goals of engagement vary, from advancing specific shareholder interests to achieving broad social objectives. So, too, do the forms of engagement, which range from simple requests for information to hostile targeting of company personnel or key practices. Some investors begin their intervention with behind-the-scene influence and negotiation in private, at cooperative meetings with company management. (Martin, Casson, Nisar, 2007)

Maintaining the investor relationship can be done with many types of tools and techniques regarding contracts and constant monitoring. When the company has created investor engagement as part of handling investor relationships, and this gives investors a possibility to influence key management practices to ensure a growth in shareholder value.

There are a few types of investor engagement that involves different types of investor relationships. The first type of investor engagement deals with more traditional approach and it is more indirect, from this approach investor concede strategic and operational controls of the company management. The second type of investors engagement is more focused on the external management, in which the investors have possibilities to handle mechanisms to control the functioning of the capital market without being involved in the internal workings of the company.

The third type of investor engagement involving investors influencing internal governance of the company for the sole purpose at maximizing shareholder value. The fourth type deals with investors discussing strategic and operational matters with the corporate management as shown in Figure 5.

Type	Description	Action
Indirect/laissez-faire External Internal	Management-led/" let well alone" Exit protection Influence board membership	Capital withdrawal; (threat of) exit Shareholder resolutions

	and independence	Non-executive Appointments
Negotiator Direct	Face-to-face dialogue Investor-led	Persuasion; relational financing Executive appointments

(Figure 5 Investor engagement in corporate governance, Casson, 2007)

Managing investor relationships deals with different aspects of the relationship, since it a two-way, both investors and managers try to control their end of the relationship.

In seeking to manage investors, senior managers possess four major types of resources: material, legal, cultural and intellectual. The first major type of resource is material, the direct control of corporate assets, including financial assets, subject to auditor oversight. The second major resource is the legal protection of managerial authority. Thirdly, both state authorities and the broader culture, which endorse corporate managerial authority, support this legal protection. Lastly the fourth major resource is knowledge and understanding. Managers generally have deeper knowledge and understanding of corporate affairs than investors or their agents, and are able to deploy than greater knowledge in cases of disagreement. (Martin, Casson, Nisar, 2007)

There are many arguments from the perspective of shareholder value and how it is linked to investor management, and also therefore the importance of handling the relationships between investors and managers.

There are two types of arguments for shareholder value. The first is economic and concerns the relationship between shareholder value and economic performance, evaluating the expectation that shareholder value maximizes corporate performance and therefore collective welfare. The second is social and political, claiming that shareholder value is necessary to compensate investors for their acceptance of unsecured risks. (Martin, Casson, Nisar, 2007)

It has been argued that shareholder value when done correctly contributes to the higher capital returns, however, the efficiency of using shareholder value as part of the strategic decision-making requires a more fundamental analysis.

There are five main justifications for the view that shareholder value is the most efficient form of corporate governance. The first justification deals with the internal means of management control. The second justification includes the efficient of capital market and how the resources are flowing in the market to ensure that investments flow from low areas of production to high production. The third justification handles the role of the capital market when introducing new capital. The fourth justification handles high risk investments. The last justification deals with corporate managers. (Martin, Casson, Nisar, 2007)

These justifications support shareholder value and its importance in creating and keeping up a strong relationship between investors and corporate managers. Investors are expecting high returns on the investments and therefore seek support from managers to keep a stable platform between investments and the capital market. For an effective capital market to be successful, it needs to be possible to find parts of the market where funds are being used ineffectively and it is up to managers to be able to transfer the funds to be used more effectively.

The corporate control that handles the mechanism of transferring resources from less profitable to high profit. Other ways of monitoring performance and preventing entrenchment of company interests, and therefore, include political regulations and production. One of the main reasons of arguing for shareholder value means that markets are acting more efficiently. (Martin, Casson, Nisar, 2007)

It has been shown that shareholder value has a natural preference for profit distribution rather than earnings retention, and therefore the process of innovation is less positive.

There are shown to be more benefits of using this type of innovations, however, it is getting harder to identify these particular innovations. (Martin, Casson, Nisar, 2007)

For that reason, shareholder value must be aligned with the incentives of senior managers and investors. Without external monitoring and alignment between investors and corporate management interests, what can affect managers' incentives and be distorted.

Distribution of the financial means has been one of the main concerns, when it comes to efficient control and equal share of assets and income. When companies are not focusing on equal distribution, it can have a negative effect on the company. The company has to put high focus on minimizing risks by developing strategies in production. (Martin, Casson, Nisar, 2007)

The fluidity of capital markets can foster a rapid development of new technology and development of technology sectors and revitalize existing sectors, and therefore, the importance of implementing shareholder value as part of the objective of the company strategies do affect the capital market and its transparency. Shareholder value is strongly linked to investor engagement and maximizing profit returns.

There are three major categories of justifications for investor engagement. The first major category deals with shareholder value as its primary function as increasing shareholder wealth. The second category is ensuring company conformity. The third major category deals with achieving both economic and social objectives. (Martin, Casson, Nisar, 2007)

These conditions are crucial for a working investor engagement between investors and corporate managers. The balance between transparency and goals for both investors and managers keep the relationship open among the company and capital market. In shareholder value thinking, the corporation is considered as a unity, seeking to maximize shareholder value; a plurality of interests leads to conflict and reduces corporate efficiency. (Martin, Casson, Nisar, 2007)

2.5 Measuring Shareholder value

Measuring shareholder value has been subjected to much criticism when it comes to the traditional financial measurements that have been used in evaluating company performance. For that reason, new financial measurements have merged and there has been an attempt to give a broader perspective of the performance rather than using the traditional measurements, which only measure the specific part of the company performance.

In simple terms, shareholder value is about putting the needs of shareholders at the heart of management decisions. It is argued that shareholders invest in a business with a view to maximizing their financial returns in relation to the risks that they are prepared to take. As managers are appointed by the shareholders to act on their behalf, management decisions and actions should therefore reflect a concern for maximizing shareholder returns. (Atrill, Mclaney, 2012)

For understanding of shareholder value measurement, is it important to evaluate the stages of creating shareholder value. Creating shareholder value for the company is a four-stage process.

The first stage is to set objectives for the business that recognize the central importance of maximizing shareholder returns. This will set a clear direction for the business. The second stage is to establish an appropriate means of measuring the returns, or value, that have been generated for shareholders. The third stage is to manage the business in such a manner as to ensure that shareholder returns are maximized. This means setting demanding targets and then achieving them through the best possible use of resources, the use of incentives systems and the embedding of a shareholder value culture throughout the business. The final stage is to measure the shareholder returns over a period of time to see whether the objectives have actually been achieved. (Atrill, Mclaney, 2012)

Set objectives that recognize the supremacy of shareholders.
Select an appropriate measure of shareholder return.
Generate shareholder returns through focused management.
Measure shareholder returns to see whether the objectives are being achieved.

(Figure 6 The four-stage process for creating shareholder value, Atrill, Mclaney, 2012)

As it can be shown in Figure 7, the traditional measurements used in the evaluating business is too narrow and do not take into consideration the whole perspective of the business. The traditional measurements do not consider the shareholder value and therefore should not be used to measure shareholder returns.

Profit is measured over a relatively short period of time (usually one year).	When measuring shareholder returns, are we considered with maximizing shareholder returns for long term.

Risk is ignored.	A fundamental business reality is that there is a clear relationship between the level of returns achieved and the level of risk that must be taken to achieve those returns.
Accounting profit does not take account of all of the costs of the capital invested by the business.	The conventional approach to measuring profit will deduct the cost of borrowing in arriving at profit for the period, but there is no similar deduction for the cost of shareholder funds.
Accounting profit reported by a business can vary according to the particular accounting policies that have been adopted.	The way that accounting profit is measured can vary from one business to another. Some businesses adopt a very conservative approach, which would be reflected in particular accounting policies.

(Figure 7, Four broadly problems with using accounting profit, or a ratio based on profit, to assess shareholder returns, Atrill, Mclaney, 2012)

The traditional measurments that have been used for evaluating the company's financial and performance position in the capital market do not consider all the important aspects of shareholder value to be able to get an overall image if shareholder has increased or decreased.

The most common traditional measurement that has been used for business evaluation is Net Present Value (NPV Analysis) as shown in Figure 8.

The Net Present Value analysis covers the long-term aspects when evaluating shareholder value of a business, however, this measurement lacks the account of risk and acknowledge of the cost of shareholders' funds. Another problematic aspect deals with the company's possibilities to affect the measurement by choosing different accouting policy choices.

$$NPV = -C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + ... + \frac{C_T}{(1+r)^T}$$

$$- C_0 = Initial\ Investment$$
$$C = Cash\ Flow$$
$$r = Discount\ Rate$$
$$T = Time$$

(Figure 8 The Net Present Value Formula)

Net Present Value is more easily understood, when using the formula in practice, and to do so the cash flows must be discounted for the desired rate of return.

Shareholders have a required rate of return. Managers must strive to generate long-term cash flows for shares (in the form of dividends or proceeds from the sale of the shares) that meet this rate of return. The expectation that the managers will, in the future, fail to generate the minimum required cash flows will have the effect of reducing the value of the business as a whole and, therefore, of the individual shares in it. (Atrill, Mclaney, 2012)

The NPV approach is considered the most important criterion when assessing shareholder value changes, however, when extending the NPV analysis to Shareholder Value Analysis (SVA), it considers the maximization of shareholder value and how it affects the NPV approach of evaluation of the overall business.

When evaluating an investment project, shareholder wealth will maximize the net present value of the cash flows generated from the project. Leading on this, the business as a whole can be viewed as simply a portfolio of investment projects and so to maximize the wealth of shareholders the same principles should apply. The SVA approach involves evaluating strategic decisions according to their ability to maximize value, or wealth, for shareholders. (Atrill, Mclaney, 2012)

Part of evaluating businesses using NPV and SVA approaches is to measure free cash flow, which are the available funds generated from business actions and given to shareholders for long-term purposes.

This shortened approach leads us to identify the key variables in determining free cash flows as being: sales revenue, operating profit margin, tax rate, additional investment in working capital and additional investment in non-current assets. These are value drivers of the business that reflect key business decisions. These decisions convert into free cash flow and finally into shareholder value. The managers can take actions which includes as follows: Boost sales revenue, increase operating profit margin, reduce the effective tax rate, reduce the investment in working capital and reduce the investment in non-current assets. (Atrill, Mclaney, 2012)

2.6 How Shareholder value is implemented in decision-making

Shareholder value can be implemented in the decision-making process, is it important for the top management to decide what value drivers are implemented in the process.

The first step is to achieve consensus among senior management about the overall goal of the organization- what constitutes success? It takes time to achieve consensus, and the implications of accepting shareholder value as the governing objective are far-searching. (Barfield, 1997)

For this to be possible, the company needs to have a stable and growing revenue base, and these are a result of satisfied customers and motivated staff. Successful organizations do not underestimate the time challenge that it takes for adjusting and bringing new performance measurements.

Implementing a new performance measurement measure such as economic profit or a new incentive scheme may be necessary, but will certainly not be sufficient to maximizing value. While concepts such as economic profit are relatively simple, their implications for management behavior can be wide-ranging. (Barfield, 1997)

When improvements are done to the strategic decision-making process, is it important for the top management to have the right tools and information to discourage fear of new decisions and also to have a damage control plan.

Fear can result in attempts to discredit the approach. All manner of justifications will be made to protect the status quo and retain businesses that are destroying value. (Barfield, 1997)

The most important tools that top management can use to dissolve the fear among their staff, is train both top management and all the staff members. Training gives the staff a chance to understand the importance of change and how it is implemented into their daily work. For the training to work sufficiently, the top management needs to build so called know-how, a value capability, inside the company and these principles needs to be set up with the right type of tools and supported by appropriate techniques such as returns, risk and growth.

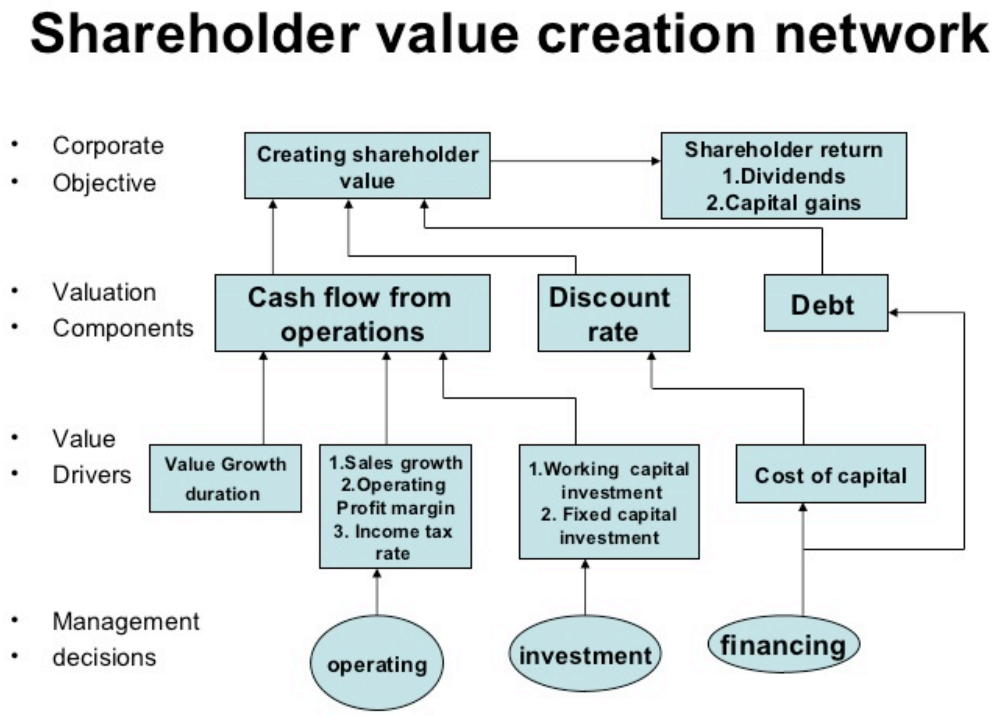
Important aspects of implementing shareholder value need to be understood by the management. A part of shareholder value approach deals with heavy focus on returns, risk and growth, and therefore, is it important to fully manage all of these aspects.

In the beginning, after changes has been made by implementing shareholder value into the decision-making process, the company must use more of the equity. When this is done correctly, the returns will increase as an effect from implementing shareholder value principles.

The trick in managing shareholder value is to select those growth opportunities that will deliver returns above the cost of equity. The top management has to choose strategies that promote shareholder value, but also provide the operating management with tools and techniques to assess risk and evaluate the shareholder returns.

For the transparency of the capital market to be successfully communicated, the company must have open communication. This open communication will reflect on the share price as well as play a big role for investors, since this creates trust between investors and the company for future investments.

Those who support this approach argue that SVA can be a powerful tool for strategic planning. SVA can be extremely useful when considering major shifts of direction such as acquiring new businesses, selling existing businesses, developing new products or markets and reorganizing or restructuring the business, because it takes account of all the elements that determine shareholder value. (Atrill, Mclaney, 2012)



(Figure 9, Shareholder value creation network, 2012)

Sensitivity analysis can be used in identifying the most effective variables of shareholder value. Furthermore, with each value driver, which has a direct effect on free cash flow, can the management emphasize performance of the company's shareholder and value targets. The supporters of SVA approach believes that this measurement should replace all the traditional measurements used when evaluating value creation such as profit, earnings per share and return on ordinary shareholders' funds.

We can see that SVA is really a radical departure from the conventional approach to managing a business. It will require different performance indicators, different financial reporting systems and different management incentive methods. If SVA is implemented, it can provide the basis of targets for managers to work towards, on a day-to-day basis, which should promote maximization of shareholder value. (Atrill, Mclaney, 2012)

Another traditional measurement that has been evaluated as being used rather than SVA approach is Economic Value Added (EVA) approach.

$$\textbf{EVA} = \text{Net Operating Profit after Taxes} - (\text{Capital} * \text{The Cost of Capital})$$

(Figure 10 Economic Value Added Formula)

Only when EVA is positive it can be said that the business is increasing shareholder wealth. To maximize shareholder wealth, managers must increase EVA by as much as possible. EVA relies on conventional financial statements (income statement and statement of financial position) to measure the wealth created for shareholders. (Atrill, Mclaney, 2012)

One of the benefits of EVA is that managers are subjected to discipline as a result of the charge for capital that has been invested. EVA approach encourages managers to use the business resources effectively.
When comparing EVA with the SVA approach, both approaches in fact are quite close to each other. Both approaches calculate the shareholder wealth in the same way, since EVA approach calculates shareholder value by adding to the capital invested to the present value of future EVA flows and then deducts the market value of any borrowings.

SVA Approach: Discounted free cash flows	EVA Approach: Capital Invested + Discounted future EVA flows
Total Business value: Less	**Total Business value: Less**
Market value of borrowings: Equals	**Market value of borrowings: Equals**
Shareholder value	**Shareholder value**

(Figure 11, Two approaches to determining shareholder value, Atrill, Mclaney, 2012)

Although both EVA and SVA are consistent with the objective of maximizing shareholder wealth and, in theory, should produce the same decisions and results, the supporters of EVA claim that this measure has a number of practical advantages over SVA. One such advantage is that EVA sits more comfortably with the conventional financial reporting systems and financial reports. There is no need to develop entirely new systems to implement EVA as it can be calculated by making a few adjustments to the conventional income statement and statement of financial position.

It is also claimed that EVA is more useful as a basis for rewarding managers. Both EVA and SVA support the idea that management rewards should be linked to increases in shareholder value. This should ensure that the interests of managers are closely aligned to the interests of shareholders. Under SVA approach, management rewards will be determined on the basis of the contribution made to the generation of long-term cash flows. However, there are practical problems in using SVA for this purpose. (Atrill, Mclaney, 2012)

Economic value added is committed to maximizing shareholder wealth, however, using EVA methods, the results will reflect on long-term goals. As mentioned in the previous chapter the company needs to have stable level of revenue, operating assets and borrowings before drastic changes to the shareholder value can be made.

Another traditional measurement that has been widely used in calculating shareholder value. Return on Investment (ROI) as shown in Figure 12, which is used in identifying business operating divisions on profitability and it works well along side with other approaches when assessing shareholder value.

$$ROI = \frac{(\text{Investment Gain - Investment Cost})}{(\text{Investment Cost})} \times 100$$

(Figure 12 Return on Investment Formula)

When defining divisional profit for this ratio, the purpose for which the ratio is to be used must be considered. For evaluating the performance of a divisional manager, the controllable profit is likely to be the most appropriate, whereas for evaluating the performance of a division, the divisional profit for the period is likely to be more appropriate.

ROI is a measure of profitability, as it relates profits to the size of the investment made in the division. This relative measure allows comparison between divisions of different sizes. However, ROI has its drawbacks. Where it is used as the primary measure of performance for divisional managers, there is a danger that it will lead to behavior that is not really consistent with the interests of the business overall. (Atrill, Mclaney, 2012)

When measuring performance of the business, ROI is mostly used as primary measurement. However, ROI only measures performance short-term, and therefore, important investments can be rejected even though the investments can have a positive NPV long-term wise.

2.7 Shareholder value creation

When the company is maximizing shareholder returns for its shareholders, it is important for the company to be able to create value by understanding the strong linkage between shareholders and the value created.

Shareholder value creation should be the ultimate goal of strategy- the primary measurement guiding corporate decisions and the myriad day-to-day choices of any business units. (Copeland, 1994)

When implementing value-based planning as an other objective for creating shareholder value, is it possible for the company to maximize company profits and ensure a stable growth in the future.

Shareholder value has become the key metric that allows the company to measure in dollar values the long-term impact of management decisions and business strategies. This shift in the way the company keeps score has been driven by significant regulatory and competitive changes over the past ten years. (Copeland, 1994)

Part of the value creation deals with identifying its market share by evaluating financial performance by using Economic Value Added (EVA) as well as other traditional measurements.

Economic value added is a period measure of shareholder value that focuses on both after tax income and asset utilization. One of the features of the shareholder value system that makes it attractive for companies was the correlation between economic value added and the market premium, or market value added. Market value added tracks economic value added much more closely than more popular measures such as earnings per share, operating margins or return on equity. (Copeland, 1994)

When managers are evaluating the company performance as well as the its competitiveness, the measurement of economic value added will encourage managers

to become more entrepreneurial, and therefore, they are able to identify successful strategies.
Measuring economic value added encourages managers to develop an entrepreneurial spirit. It does this by identifying the winners – those units creating returns beyond the average that shareholders could expect to earn by investing in companies of similar risk. It also provides a powerful decision-making tool for operations managers by identifying factors that aid in creating an excess over minimum required returns. Over time, this is how shareholder value is created. (Copeland, 1994)

One aspect of shareholder value creation is implementing a value-based management system, which can be used as an important tool in the decision-making process.

Value-based management is a multi-period system for measuring economic value added that can be used for planning and resource allocation, including decisions on investments and acquisitions. New tools were put in place to enhance communications and institutionalize the adoption of VBM. However, the most important part of the process was obtaining strong top management support and involvement. VBM has fundamentally changed the way managers think about their businesses. It enables them to consider both short-and long-term impact their decisions will have on the value of the corporation by helping them identify and quantify the sources of value creation – key value drivers for their business. In order to optimize shareholder value, they must evaluate the effect all their decisions have on their value drivers. (Copeland, 1994)

Value-based management has been proven to be an effective tool when analyzing financial performance for a company, and how these financial decisions affect the decision-making process from top management. By reevaluating these financial units has companies been able to make critical decisions according to their strategic and financial fit.

By focusing on shareholder value, companies will discover opportunities to achieve significance growth with profitability that will be rewarding to all – employees, customers, and shareholders. (Copeland, 1994)

When it comes to adopting a new approach that affects an extremely important part of the company regarding the future of investments and compensation, the overall attitude is filled with skepticism. Therefore, the role of the company's top management is to show a supporting attitude towards new ideas and approaches.

Economic value added is a one-period, accounting-based measure of value creation. It is defined as the spread between your return on invested capital minus your weighted average cost of capital, multiplied by the amount of capital invested. The discounted cash flow value of your company – the basis of shareholder value management – is a multi-period measure where forecasted free cash flow is discounted at the weighted average cost of capital. Both measures accurately reflect careful management of the balance sheet as well as the income statement. For compensation purposes, however, economic value added is better. (Copeland, 1994)

Using value-based management as one of the yardsticks of company's financial targets has created a positive perspective that has influenced the long-term goals of companies. However, the type of perspective requires a balanced top management with great focus on the task at hand.

When top management becomes convinced that value based performance measures results in better decisions because they are linked more directly to the creation of shareholder value in the marketplace, then the company is ready to consider implementing value-based management. Top management's responsibility is to prepare the ground for its wholehearted adoption. (Copeland, 1994)

From Figure 13, the main points for linking shareholder value and strategy, which can create a functioning value-based management system inside the company can be seen. As part of using shareholder value implemented into the decision-making process, is it important to understand how value is created. When value has been successfully created for the shareholders, this in return will create a higher amount of future investments for the company.

A strong focus on strategic planning at both the business unit and corporate levels with corporate strategy evolving from business unit strategies.
Integrated performance measurement driven down to grass roots level of the front line management.
Planning led by those responsible for implementation.
Excellent flow of information and facts used to provide benchmarking and face-based decision making.
Genuine dialogue – two –way communication between layers of management.
Planning ingrained in the culture of the organization.

(Figure 13, Implementation of shareholder value management, McKinsey, 1994)

3. EMPIRICAL FRAMEWORK

3.1 Research method

Qualitative research was used as the main research methodology for this study.

Qualitative research is used to show the target audience's range of behavior and how the concept is perceived. This is usually in-depth research of a specified group to guide and support the hypothesis.
This type of research method has its roots in social and behavioral sciences.
Today, qualitative methods in the field of marketing research include in-depth interviews with individuals, group discussions (from two to ten participants is typical); diary and journal exercises; and in-context observations.

Part of this study, were questionnaires sent to different companies from the financial sector. The questionnaires cover topics related to the shareholder value and how it is considered for the company. The questions were designed on based on the theoretical framework of this thesis, however, the questions were written open-ended so that the chosen companies did have a choice of elaborating the answers.

3.2 Reliability and Validity

Both reliability and validity could have been threatened during the empirical framework process when conducting the study.

Reliability is the degree to which an assessment tool produces stable and consistent results**. Validity** refers to how well a test measures what it is purported to measure.

The importance of keeping validity as the questionnaires were done from the point of view of what has been found out during the writing of this thesis, and therefore, it might not be as objective as it should be.

The questionnaires were sent to numerous companies from the same field, which were chosen at the beginning of this study, and therefore, the reliability and validity could be comprised. However, the first batch of companies that were chosen were not from the traditional financial banks, but rather companies involved in investments and hedge funds.

The area where the companies were chosen from, were all located in the Helsinki area, since the Ostrabotnia area has very few financial companies when excluding the traditional banks from the area. In Helsinki there are more companies involved in investments activities, and therefore, it was thought that reply rate would be quite high.

3.3 Chosen Companies

As mentioned above, the area chosen was South of Finland and the metropolitan area of Helsinki. This is because many of the companies have their headquarters in Helsinki and not all of the companies have a branch in Ostrobothnia area.

The questionnaires were sent by e-mail and it was asked to forward the questionnaire to the top management to be get the overall image of how the shareholder value is implemented into the decision-making process.

1. Alexandria
2. Blue White Alternative Investments LTD
3. Confido Capital Oy
4. Eq Oyj
5. Estlander & Partners
6. FIM Group
7. Finlandia Group
8. Front Capital
9. Head Asset Management Oy
10. KJK Capital
11. Seligon & Co

12. United Bankers Oyj
13. Investment Management Tresor LTD
14. WIP Asset Management

(Figure 14 the list of companies from the first round)

The response rate was not as high as it was thought to be, and, therefore, it created problems when analyzing the results of the questionnaire. The most common reply was that the company was either not that big or the company did not have enough shareholders for them to be able to answer the questions fully.

For that reason, new financial companies had to be researched and the traditional financial companies such as banks had to be considered to be included in the study.

1. Nordea
2. Fine
3. Danske Bank
4. Swedbank
5. Carnegie
6. DnB
7. Forex
8. Deutche Bank

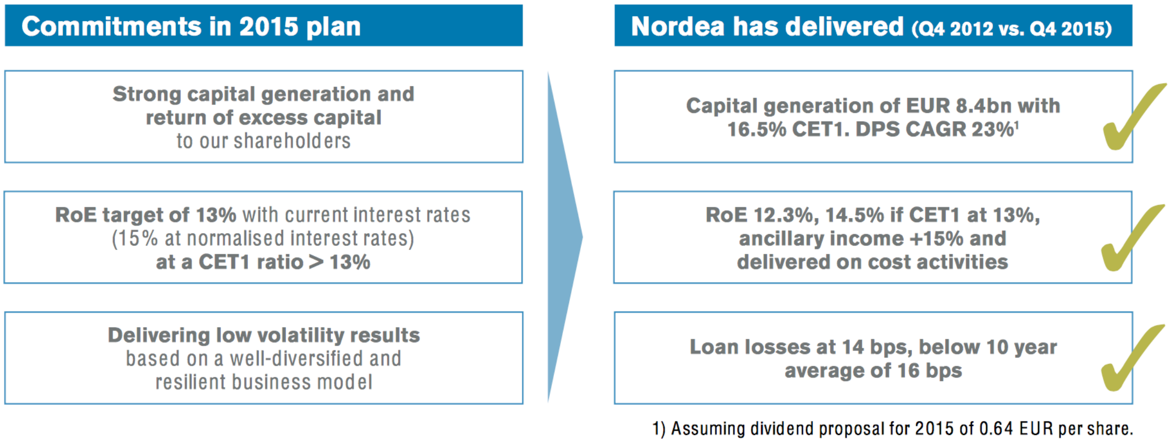
(Figure 15 the list of companies for the second round of the questionnaire)

The questionnaire was sent to all the companies listed in Figure 15, however, Nordea was the only who replied in time. This of course, created threats towards the validity of this research, since the entire research is now based on one of the company's answers regarding shareholder value and how it is implemented into decision-making process.

3.4 Nordea

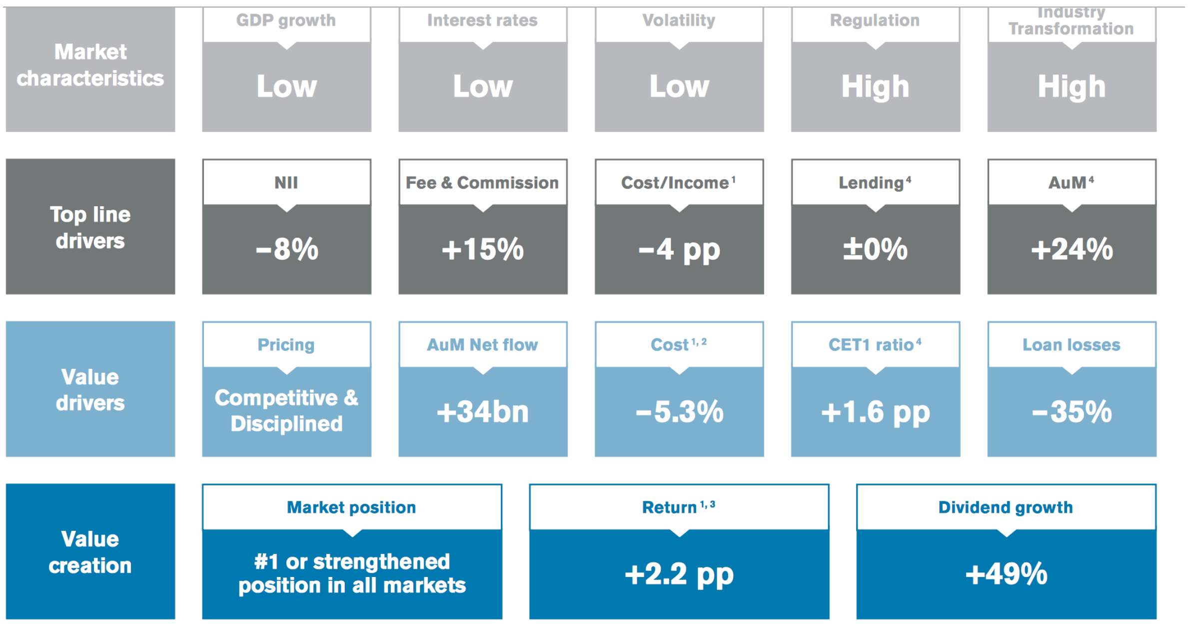
Nordea has its headquarter in Stockholm and the number of branches are more than 1,400 branches. The bank is present in 19 countries around the world, operating through full service branches, subsidiaries and representative offices.
Nordea is currently serving 11 million private customers and more than 700,000 company customers.The group also operates an internet bank, which has more than 5.9 million online customers doing more than 260 million payments per year.

As part of Nordea's commitment plan for 2015, shareholder value was added as one of their main objectives in strategic planning, including generating excessive amounts of returns to the shareholders. Another important financial target was for year 2015 to keep the level of Return on equity below 13%. All of these targets help to sustain and develop a stronger shareholder value for the shareholders.



(Figure 16,Nordea Commitment plan, Nordea Annual Report 2015)

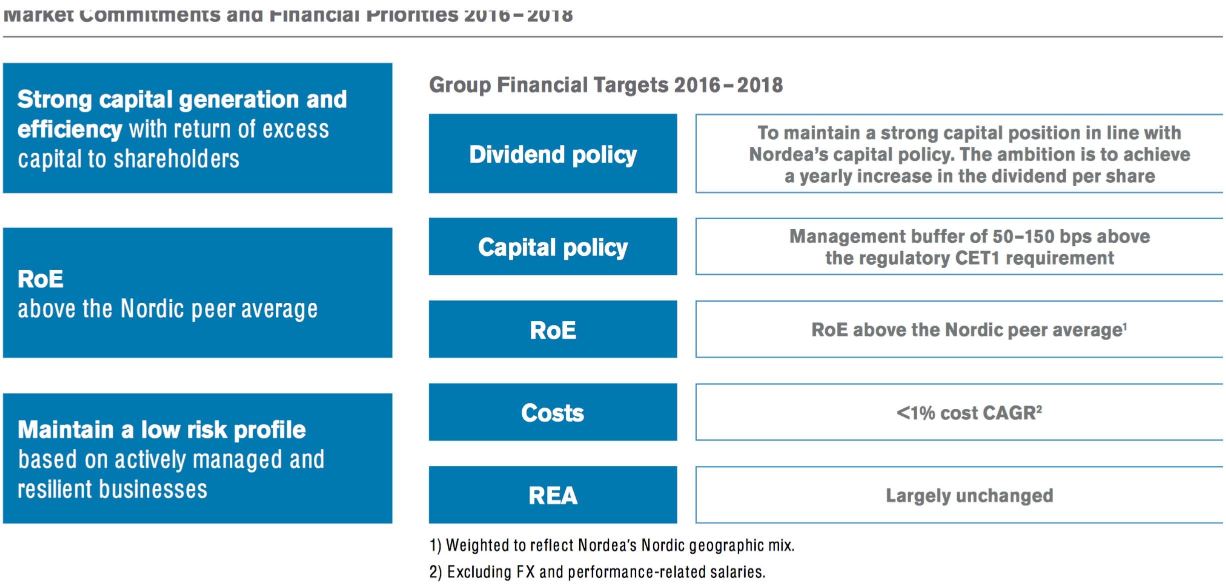
Group 2013 to 2015 – Performance and value drivers



(Figure 17,Nordea Performance and Value drivers, Nordea Annual Report 2015)

From Figures 16 and 17, it can be seen how the shareholder value has been implemented into the decision-making process inside Nordea, and from the year 2015, it is possible to see a positive response of using shareholder value as of the main objectives of their commitment plan.

Financial targets for 2016- 2018



(Figure 18, Nordea Financial Targets for years 2016-2018.Nordea Annual Report 2015)

In Figure 18 shows how Nordea is planning to use the shareholder value as part of their future objectives to ensure a constant flow of returns to its shareholders.

4. ANALYSIS OF THE EMPIRICAL FRAMEWORK

4.1 The results of the questionnaire

The answers that was received from Nordea will analyzed in the following section to understand the importance of shareholder value and how the shareholder value is dealt inside the corporation. A part of Nordea's decision-making process is built upon the shareholder value concept and the top management regards the shareholder value concept as an important objective.

With strong leadership skills from top to bottom is the shareholder value concept shown as important part of daily business in all of the business units inside the corporation. From the questionnaire, it clearly shows that Nordea have an emphasis on the shareholder value in all the decisions that are made from the top management regarding both short- and long-term goals. According to the answers from the questionnaire, all of the decisions that are made have shareholder return as one of the main objectives to ensure the shareholders are getting a high return when investing into the business.

One of the more successful aspects of Nordea's success deals with a focused and balanced management that can give the different business units a clear direction for the company. Different formulas were discussed in the theoretical framework, however, Nordea is using formulas that are not part of the traditional measurements. Return on Equity is one of the formulas that is used mostly for measuring the shareholder value.

Return on Equity is used for measuring shareholder return and it gives a clear image of increase or decrease in shareholder return and as can be seen in Figure 16 commitment plan for 2015, the return on equity was a strong increase for Nordea's shareholders.

The results are discussed and divided up into categories, which are shown in more detailed in following section.

5. CATEGORICATION OF THE EVALUATED RESULTS

Category 1	Impact on management decision
Category 2	Roles of formulas
Category 3	Importance to company performance
Category 4	Challenges of shareholder value approach

(Figure 19, Categories of the results)

From Figure 19, the different categories of the evaluated results regarding the practical uses of shareholder value in decision-making process and its impact on the management decisions can be viewed. The details of each category are explained below.

5.1 Category 1: Impact on management decision

As can be found in the empirical framework, is the shareholder value is highly regarded as an important factor in the decision-making process of the managment. In the case of Nordea, shareholder value highly is evaluated as it has a strong link between top management and the management decision process.

From Nordea's annual report (2015), shareholder value was added as a part of the commitment plan to ensure an intensive profit to the shareholders. Nordea was able to commit to their short-term goals regarding the payments of returns to their shareholders. Nordea has adopted the shareholder value approach as part of their objectives in the management strategy for the company. As part of Nordea's long-term financial targets, the shareholder value approach is strongly adopted as a strong objective.

When it comes to the importance of company performance, shareholder value is a strong objective for Nordea. Company performance is measured from the investment returns of shareholders and this is added to Nordea's financial targets for the years 2016-2018.

Shareholder value is considered throughout the organization, from top management to the organization's lower levels. This does make the shareholder value a strong target for the company. This can be reached through effective balance sheet management. The financial targets for the coming years (2016-2018), shareholder value has been added as a strong objective as part of Nordea's capital policy.

Nordea's current capital policy states that the Nordea Group should have a management buffer of 50–150 basis points above the regulatory CET 1 capital ratio requirement. (Nordea Annual Report, 2015)

CET 1 capital ratio deals with the proportions of the capital base, and part of this includes the shareholders' consolidated equity, however, it does exclude investments in various other areas. Shortfall is deducted with 100% from CET1 – meaning the negative difference between expected losses and provisions.

Part of Nordea's success with using shareholder value as a part of the objective is linked together to strong leadership qualities from the top management to all the lower levels managers.

Good leadership is a key driver of strong performance, and is particularly crucial in times of uncertainty and change. This makes developing and training our leaders and potential leaders a high priority, as well as equipping them to develop their own employees and helping them to reach their potential. (Nordea Annual Report, 2015)

Sections of Nordea's commitment plan has emphasis on leadership incentives, and how leaders are able to put targets into action.

A key 2015 initiative has been about how we measure and incentivize our leaders. We have adjusted our incentives to put more emphasis on good leadership skills, in particular by supplementing functional targets (what is achieved) with targets that focus on how they are achieved. These include how a leader translates strategy into actions, as well as putting the right team in place, and motivating the team to achieve its goals. There is also a focus on leaders' personal development – how they live the Nordea values and develop their own competences. (Nordea Annual Report, 2015)

5.2 Category 2: Roles of formulas

As can be seen from Nordea's annual report (2015), the role of various types of formulae has been used for both evaluating to company performance as well as the financial position of the company. Nordea have a high focus on using formulas such as ROE and ROCAR, since these formulas do take into consideration the influence of shareholders and the risks involved.

	2015	2014[6]	2013	2012	2011[2]
Basic earnings per share, EUR – Total operations	0.91	0.83	0.77	0.78	0.65
Diluted earnings per share, EUR – Total operations	0.91	0.83	0.77	0.78	0.65
Share price[1], EUR	10.15	9.68	9.78	7.24	5.98
Total shareholders' return, %	8.2	9.2	44.6	21.0	–24.4
Proposed/actual dividend per share, EUR	0.64	0.62	0.43	0.34	0.26
Equity per share[1], EUR	7.69	7.40	7.27	6.96	6.47
Potential shares outstanding[1], million	4,050	4,050	4,050	4,050	4,047
Weighted average number of diluted shares, million	4,031	4,031	4,020	4,026	4,028
Return on equity, % – Continuing operations	12.2	11.4	11.0	11.6	10.6
Return on assets, % – Total operations	0.57	0.50	0.49	0.47	0.38
Assets under management[1], EURbn	288.2	262.2	232.1	218.3	187.4
Cost/income ratio[5], % – Continuing operations	47	49	51	51	55
Loan loss ratio, basis points	14	15	21	26	23
Common Equity Tier 1 capital ratio excluding Basel I floor[1,3],%	16.5	15.7	14.9	13.1	11.2
Tier 1 capital ratio, excluding Basel I floor[1,3], %	18.5	17.6	15.7	14.3	12.2
Total capital ratio, excluding Basel I floor[1,3], %	21.6	20.6	18.1	16.2	13.4
Common equity tier 1 capital[1,3], EURm	23,575	22,821	23,112	21,961	20,677
Tier 1 capital[1,3], EURm	26,516	25,588	24,444	23,953	22,641
Risk exposure amount, excluding Basel I floor[1,4], EURbn	143	146	155	168	185
Number of employees (full-time equivalents)[1] – Continuing operations	29,815	29,643	29,429	29,491	33,068
Risk-adjusted profit[4,5], EURm – Continuing operations	3,692	3,476	3,352	3,313	2,714
Economic profit[4,5], EURm – Continuing operations	1,578	1,058	912	889	1,145
Economic capital[1,4], EURbn – Total operations	25.0	24.3	24.4	23.8	17.7
Economic capital[1,4], EURbn – Continuing operations	25.0	24.3	23.5	22.8	–
ROCAR[4,5], % – Continuing operations	14.6	14.0	13.7	13.9	15.5
RAROCAR[4,5], % – Continuing operations	14.9	14.4	13.7	13.9	15.5
MCEV, EURm	4,758	4,758	4,700	3,762	2,714

(Figure 20. The ratios used, Nordea Annual Report 2015)

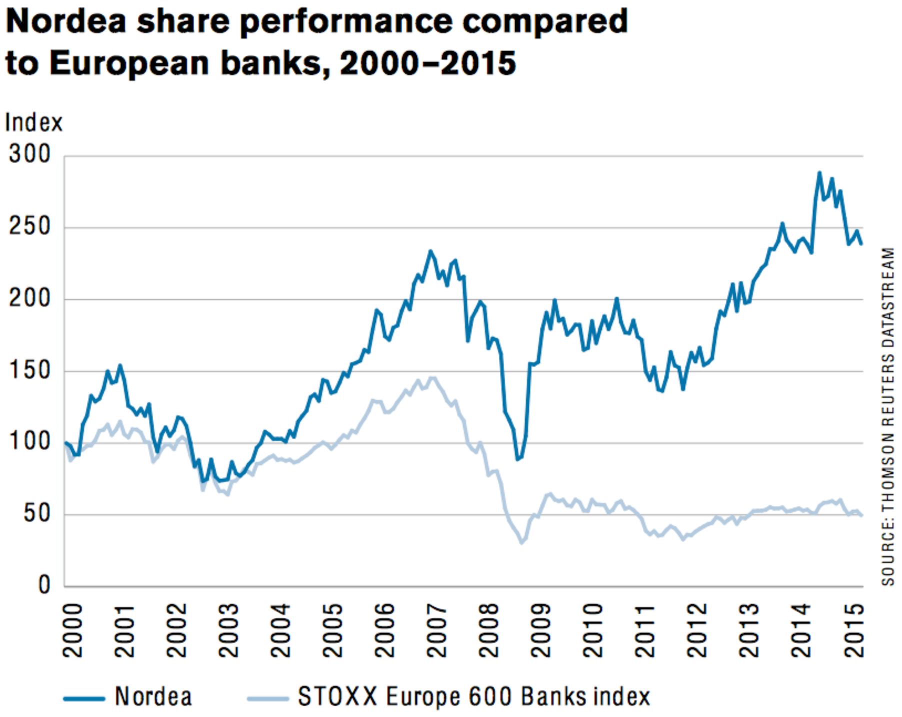
Figure 20 shows the current ratios that are used for evaluating different aspects of Nordea's performance from last year. Most of the formulas used for evaluation consider shareholder value, and therefore, are the chosen formulas implemented as part of the decision-making process. Shareholder value returns are in high focus when Nordea's top management is evaluating each business unit of the company.

5.3 Category 3: The importance to company performance

The formulas that are mentioned in 5.2 have a high linkage to company performance, since the shareholder value is measured to see how the company is benefitting from the management decision. All of the formulas used for evaluation of each business unit, have a strong linkage with company performance and also the compensations paid out to the shareholders.

Total shareholder return (TSR) is the market value growth per share and reinvested dividends. Shareholder wealth was 8% in 2015 (9% in 2014). Nordea is ranked number seven among European banks when it comes to shareholder wealth. (Nordea Annual Report, 2015)

As can be seen from the Figure 21 showing Nordea share performance according to other European banks, there is the linkage of shareholder value with company performance.



(Figure 21,Nordea share performance compared to European Banks, Nordea Annual Report 2015)

Share data 5 years

	2015	2014	2013	2012	2011
Share price (SEK)	93.30	90.90	86.65	62.10	53.25
High/Low (SEK)	115.40 / 87.00	100.00 / 84.25	86.65 / 62.10	66.90 / 51.55	79.60 / 48.30
Market capitalisation (EUR)	41.3bn	38.9bn	39.7bn	29.3bn	24.2bn
Dividend (EUR)	0.64[2]	0.62	0.43	0.34	0.26
Dividend yield[3] (%)	6.3	5.4	4.2	3.8	3.8
TSR (%)	8.2	9.2	44.6	21.0	−24.4
STOXX Europe 600 Banks index (%)	−3.3	−2.8	19.0	23.1	−34.0
P/E (actual)	11.2	11.7	12.7	9.3	9.7
Price-to-book	1.32	1.31	1.35	1.03	0.92
Equity per share (EUR)	7.69	7.40	7.27	6.96	6.47
Earnings per share[4] (EUR)	0.91	0.83	0.77	0.78	0.65
Outstanding shares[1]	**4,038,273,025**	**4,034,032,732**	**4,031,635,539**	**4,029,683,426**	**4,029,023,222**

1) Excluding shares held for the Long Term Incentive Programmes (Total number of shares including these is 4,049,951,919)

(Figure 22, Nordea Share data, Nordea Annual Report 2015)

This information that is presented in Figure 22 shows the basic information of Nordea share for five years, and this presents how the shareholder value in numerical format has evolved from the year 2011 to the year 2015.

5.4 Category 4: The challenges of shareholder value approach

The most common challenges that are found in this study deal with the rapid changes in the business environment and the macro environment. The business environment keeps changing and at the moment there are many known challenges.

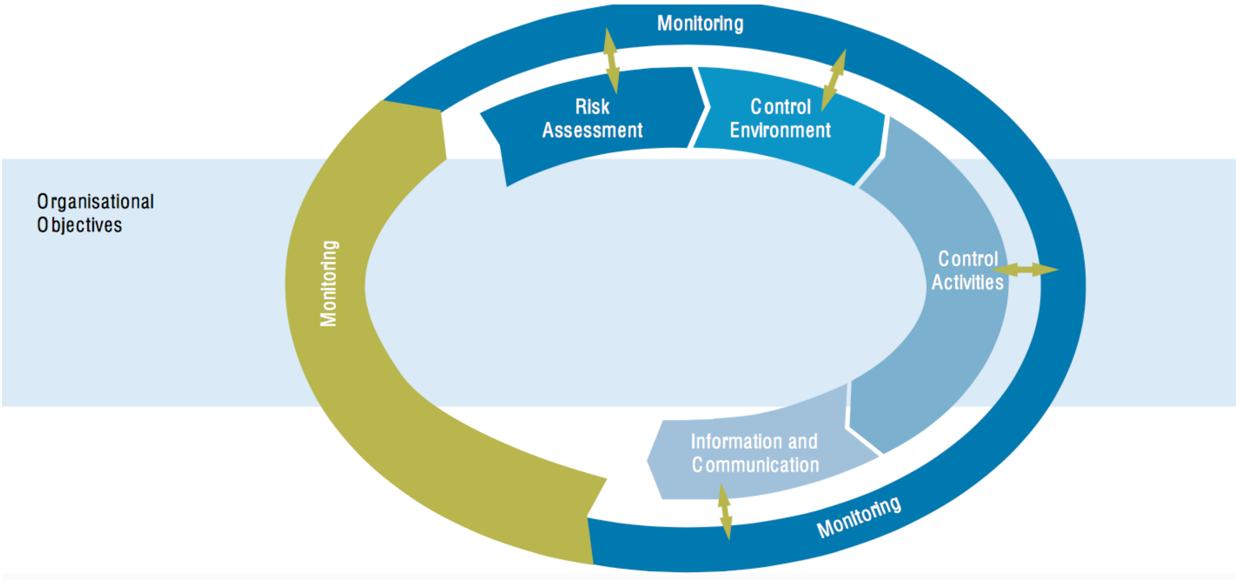
Which companies can prepare themselves for. The companies face bigger challenges when the changes are unknown and cannot be prepared for in advance.

In the world of investments, markets and shareholder value changes rapidly, and therefore, it is important for companies to be able to follow up and analyze the consequences of the chosen strategy.

The "Policy for Internal Control and Risk Management in the Nordea Group" states that the management of risks includes all activities aimed at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasizing training and risk awareness.

The Nordea Group maintains a high standard of risk management by means of applying the available techniques and methodology to its own needs. The control environment is, among other things, based on the principles for segregation of duties and independence.

Risks are monitored daily and afterwards reported on the basis of the market and liquidity for monthly view. (Nordea Annual Report, 2015)



(Figure 23. Monitoring process, Nordea Annual Report 2015)

6. DISCUSSIONS AND CONCLUSIONS

6.1 Discussions

The importance of shareholder value approach amongst companies and the management decisions are discussed to ensure that the readers will understand how this can affect the company performance in long-term. When the shareholder value is added into the company objectives, the top management then have a high priority of evaluating the return on the investment from the shareholders.

This has been noticed in many financial companies and especially in companies working in the investment sector. The capital market keeps changing, which puts companies in a hard position to constantly have to upgrade and follow how the market responds to the upgrades. Many financial companies have to constantly find ways to deal with the market changes, this is one of the most common challenges that if found in today’s capital market.

When it comes to changing the company’s objectives of financial targets and strategies, is the shareholder value approach is quite a new idea, as there are many different formulas used to evaluate a company performance, and these have been used more often than formulas considering the shareholder value. From the theoretical framework it can be seen, that shareholder value is quite a wide concept and therefore, it is this not automatically related to company performance and its short-and long-term goals.

For the investor engagement point of view, the high return on their investment is one of the most important aspects of shareholder value. However, when the company is considering targets and goals from the perspective of shareholder value the way of thinking changes from the top management to its employees. It is important for the top management to understand shareholder value approach to be able to make management decisions based on shareholder value.

The management decision is part of a long process that comes from the top management to the lower levels. As for the theoretical framework, the management decision deals with of different aspects that affect the end result of the decision, and therefore, should come down from the top management and be implemented in all the business units.

6.2 Conclusion

For the conclusion of this thesis, the results clearly show how successful a company as big as Nordea can be when implementing shareholder value correctly in the decision-making process.

From the study it has clearly been shown how the traditional measurements do not consider the shareholder value in detail intended the risk involved.

When adopting the shareholder value approach, the top management must change the line of thinking and with strong leadership this line of thinking can be implemented on lower levels and other business units inside the company.

All management decisions should be treated with importance, since the decisions have a great impact on the company's future investment intake. When it comes to a management decision, it is highly important for the decision to come from the top management, since only the top management has the authority to put these management decisions into action.

The management decisions play an important part in the decision-making process and ensure successful results. These results, however, cannot be seen until a certain amount of time has passed, since the particular management decision has been put to place.

For a management decision work properly needs both functions and dimensions of the decision to be fulfilled. There are six different functions of decision-making and these needs all to be fulfilled. The functions, when used correctly, can be important tools for the top management as part of the decision-making process.

As was found out in the empirical framework, the shareholder value drivers are used quite often in identifying what type of management decisions function properly. Nordea has showed how shareholder value approach can be used in the decision-making process, and therefore, the top management has a high focus on specific shareholder value drivers when analyzing company performance.

As part of the evaluation process is it possible to identify business units and areas that have been affected by the shareholder value approach either positively or negatively. The different formulas that are used for the evaluation process gives a clearer image of what has occurred after the changes have been made.

There are four simple steps in measuring shareholder value as mentioned in the theoretical framework. Firstly, the top management needs to set objectives in their decision-making process to include shareholder value as the primary objective. Secondly, the top management has to choose an appropriate method of measuring shareholder value. Before the third step can be fulfilled, must the top management must be able to choose a formula that can give an overall image of the shareholder value drivers, and therefore, it is important for the top management to add the shareholder value approach in to the decision-making process from the beginning.

Thirdly, after choosing the correct formula used for the shareholder value approach, the next step is to ensure that the chosen approach is generating returns for the shareholders. At this point, it is important to make constant evaluations to ensure that the shareholders' interests are kept in high priority.

7. FUTURE STUDIES AND RECOMMENDATIONS

Future studies of shareholder value will still continue, since there is not that much information about the shareholder value approach, and how this can be used effectively in company strategy. As can be found in the empirical framework, Nordea has been successful in using shareholder value approach as effective tool in their decision-making process.

The usage of shareholder value approach among the top management in the decision-making process has become more frequent, and if it is used correctly it will ensure a stable line both in company performance and the financial status among shareholders. When returns for the shareholders is kept high, this will secure a constant flow of new investments and a more transparent capital market.

When the capital market is transparent enough, it will make shareholders confident to look into new investments and risks that are involved can be calculated easily from the given information on the effective capital market.

The recommendations which can be based on the study itself show that the shareholder value approach can be useful for many companies such as performance as well as the financial status of a company.

The study clearly shows mostly positive results of using the shareholder value approach as the main area of the objectives in the decision-making process. With these type of changes companies can ensure the future investments, and therefore, will be able to establish a better market position in the capital market.

The results concluded from the study show how companies can be successful in implementing shareholder value in the decision-making process and how the top-management can evaluate the business unit when using the right tools that are used correctly when doing changes inside the company.

When these changes are made, is it important for the top management to use good leadership styles and open communication with all of the business units, as it can make the transmission from old evaluating practices to new ones which include shareholder value much easier for the company.

Financial reporting has an impact of the objectives set inside the company to be fully communicated with outside partners. Nordea is active in participating in forums and other media events. (Nordea Annual Report, 2015)

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9.APPENDIX

Appendix 1: Questionnaire

This questionnaire was sent to the chosen companies.

This following questionnaire focuses on shareholder value from the company's perspective when implementing into decision-making process.

1. Is shareholder value considered as an important objective in the strategy and decision-making?

2. How is shareholder value from your perspective handled in decision-making?

3. What type of techniques and tools are used in implementing shareholder value in all business units?

4. How is your company maximizing shareholder value?

5. What types of challenges have you encountered when implementing shareholder value into strategy and decision-making?

6. Could you explain shortly how shareholder value is implemented in practice in strategy and decision-making?

7. What types of benefits have you encountered from implementing shareholder value into strategy and decision-making?

8. How are shareholder value techniques and tools used to train other business units of the company?

9. Have you gotten any good feedback from other business units regarding these techniques and given tools?

10. Is this objective going to be used in the future as part of strategy and decision-making in your company?