Profit Maximization vs. Wealth Maximization

Financial Management is concerned with the proper utilization of funds in such a manner that it will increase the value plus earnings of the firm. Wherever funds are involved, financial management is there. There are two paramount objectives of the Financial Management: Profit Maximization and Wealth Maximization. **Profit Maximization** as its name signifies refers that the profit of the firm should be increased while **Wealth Maximization**, aims at accelerating the worth of the entity.

Profit maximization is the primary objective of the concern because of profit act as the measure of efficiency. On the other hand, wealth maximization aims at increasing the value of the stakeholders

Definition of Profit Maximization

Profit Maximization is the capability of the firm in producing maximum output with the limited input, or it uses minimum input for producing stated output. It is termed as the foremost objective of the company.

It has been traditionally recommended that the apparent motive of any business organisation is to earn a profit, it is essential for the success, survival, and growth of the company. Profit is a long term objective, but it has a short-term perspective i.e. one financial year.

Profit can be calculated by deducting total cost from total revenue. Through profit maximization, a firm can be able to ascertain the input-output levels, which gives the highest amount of profit. Therefore, the finance officer of an organisation should take his decision in the direction of maximizing profit although it is not the only objective of the company.

Definition of Wealth Maximization

Wealth maximizsation is the ability of a company to increase the market value of its common stock over time. The market value of the firm is based on many factors like their goodwill, sales, services, quality of products, etc.

It is the versatile goal of the company and highly recommended criterion for evaluating the performance of a business organisation. This will help the firm to increase their share in the market, attain leadership, maintain consumer satisfaction and many other benefits are also there.

It has been universally accepted that the fundamental goal of the business enterprise is to increase the wealth of its shareholders, as they are the owners of the undertaking, and they buy the shares of the company with the expectation that it will give some return after a period. This states that the financial decisions of the firm should be taken in such a manner that will increase the Net Present Worth of the company's profit. The value is based on two factors:

1. Rate of Earning per share
2. Capitalization Rate

BASIS FOR COMPARISON	PROFIT MAXIMIZATION	WEALTH MAXIMIZATION
1. Concept	The main objective of a concern is to earn a larger amount of profit.	The ultimate goal of the concern is to improve the market value of its shares.
2. Emphasizes on	Achieving short term objectives.	Achieving long term objectives.
3. Consideration of Risks and Uncertainty	No	Yes
4. Advantage	Acts as a yardstick for computing the operational efficiency of the entity.	Gaining a large market share.
5. Recognition of Time Pattern of Returns	No	Yes

The fundamental differences between profit maximization and wealth maximization are explained in points below:

1. The process through which the company is capable of increasing earning capacity known as Profit Maximization. On the other hand, the ability of the company in increasing the value of its stock in the market is known as wealth maximization.

2. Profit maximization is a short term objective of the firm while the long-term objective is Wealth Maximization.

3. Profit Maximization ignores risk and uncertainty. Unlike Wealth Maximization, which considers both.

4. Profit Maximization avoids time value of money, but Wealth Maximization recognizes it.

5. Profit Maximization is necessary for the survival and growth of the enterprise. Conversely, Wealth Maximization accelerates the growth rate of the enterprise and aims at attaining the maximum market share of the economy.