

Financial Management (ECON F315)

Assignment-1

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Q-3) Assess status of small Shareholders Wealth Maximization position

Shareholders are the individuals, businesses, and institutions that have an ownership interest in a company after purchasing shares of that company's stock. Shareholder wealth is the appropriate goal of a business firm in a capitalist society. When business managers try to maximize the wealth of their firm, they are actually trying to increase the company's stock price. As the stock price increases, the value of the firm increases, as well as the shareholders' wealth.

The Managers of the Firm

People often think that the managers of a firm are the owners. Managers are quite different from owners. They get a share in the profits if they do own shares of the company stock. Employees can also have a share in the company.

Because the managers of a firm are directed and guided by a Board of Directors, and because they do not profit directly from the firm's goal to maximize shareholder wealth (unless they are also shareholders), conflict can sometimes arise between stockholders and managers. This conflict is called the agency problem. Managers serve as agents of the shareholders. If there is an agency problem, it is imperative to find a resolution as soon as possible to prevent problems within the business that can impede performance.

To see if a company can do justice to the shareholders in times of troubles or at the time of division of dividends, we look at its shareholding pattern, social responsibility, relationship with lenders and current board (of Directors) structure. Here is the analysis of two companies- Infosys Limited and Persistent Systems, and their status of small shareholders wealth maximization.

Infosys Limited:

Shareholding Pattern:

Infosys Limited Shareholding Pattern		
Holder	No of Shares	% Share Holding
Promoters	560182338	13.04%
Foreign Institutions	1431074922	33.32%
Others	880596178	20.50%
Mutual Funds	565189425	13.16%
Financial Institutions	423656578	9.86%
General Public	414248564	9.64%
GDR	20094430	0.47%

Infosys Limited has 33.4% foreign shareholders, 13.04% of the shares are held by Indian Promoters. Next in line are mutual funds, institutional and non-institutional public shareholders. Banks come after that. Infosys's stock is not solely held by any major firm in a major quantity. That implies that any decisions taken will not be tilted or inclined on a particular side.

Board of Directors

Name	Designation on Board	Designation
Nandan M Nilekani	Chairman	Co-founder & non-executive chairman
U B Pravin Rao	Whole Time Director & COO	Whole Time Director & COO
Punita Kumar Sinha	Independent Director	Founder and Managing Partner, Pacific Paradigm Advisors
D Sundaram	Independent Director	Vice Chairman & Managing Director, TVS Capital Funds Ltd.
Michael Gibbs	Independent Director	Vice-Chair of "A Child's Hope – Haiti", former Group CIO for BP, PLC
Salil Parekh	Managing Director & CEO	Managing Director & CEO
Roopa Kudva	Independent Director	Managing Director of Omidyar Network India Advisors
D N Prahlad	Independent Director	Chairman of EdgeVerve Limited
Kiran Mazumdar Shaw	Independent Director	Chairperson and managing director of Biocon Limited.

An independent director is a person who is not related to the promoters or other members of the company. In Infosys' board of nine, six are independent directors, the other three being in chief managerial positions of the company. Having independent directors helps in increasing accountability unlike in cases where the majority of the board is comprised of the company's management. Infosys' independent board of directors are mostly in the leading positions of other companies. But none of the family members of the current board are also on the board. So, the board would give a fair thought for the small shareholders.

Persistent Systems Limited

Shareholding Pattern:

Persistent Systems Limited Shareholding Pattern		
Holder	No of Shares	% Share Holding
Promoters	24377165	31.67%
Foreign Institutions	15397573	20.00%
Others	14140214	18.37%
Mutual Funds	13647204	17.73%
Financial Institutions	4643399	6.03%
General Public	2662333	3.46%
GDR	2106999	2.74%

Persistent Systems Limited has 20% foreign shareholders. 31.06% of the shares are held by Indian Promoters. Next in line are mutual funds, institutional and non-institutional public shareholders. Banks come after that. Infosys's stock is not solely held by any major firm in a major quantity. That implies that any decisions taken will not be tilted or inclined on a particular side.

Board of Directors:

In Persistent Systems, out of 12 board members, there are 7 independent directors and other 5 are in chief managerial positions of the company. Having independent directors helps in increasing accountability unlike in cases where the majority of the board is comprised of the company's management. Infosys' independent Board of Directors are mostly in the leading positions of other companies. But none of the family members of the current board are also on the board. So, the board would give a fair thought for the small shareholders.

Name	Designation on Board	Designation
Anand Deshpande	Chairman & Managing Director	Chairman & Managing Director
Christopher O Connor	Executive Director & CEO	Executive Director & CEO
Thomas Kendra	Non-Exe.Non-Ind.Director	Non-Exe.Non-Ind.Director
Pradeep Bhargava	Independent Director	Board of Cummins India,Torrent Pharmaceuticals
Kiran Umrootkar	Independent Director	Former Executive director of Tata TD Waterhouse and securities
Deepak Phatak	Independent Director	Set up affordable systems lab
Sunil Sapre	Executive Director & CFO	Executive Director & CFO

Sandeep Kalra	Executive Director & President	Executive Director & President
Roshini Bakshi	Independent Director	MD of Everstone capital Asia
Prakash Telang	Independent Director	Former MD of tata motors
Anant Jhingran	Independent Director	Former CTO at Apigee
Guy Eiferman	Independent Director	Former MD of Merick, France