

[FREE] The End Of Shareholder Value: Corporations At The Crossroads

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Allan A. Kennedy

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Allan A. Kennedy : The End Of Shareholder Value: Corporations At The Crossroads before purchasing it in order to gage whether or not it would be worth my time, and all praised The End Of Shareholder Value: Corporations At The Crossroads:

1 of 4 people found the following review helpful. Interesting study of corporate evolutionBy Steve McAlisterI'm not an economist and I don't have an MBA, but for the most part, I found this book to be easily understood and informative. I especially enjoyed the study of the three phases of the evolution of large companies, from family-derived to the greed merchants of the 1990's. Because I "cheated" and read the last couple of chapters first, I was concerned that Mr. Kennedy appeared to have a somewhat anti-business view of how to correct things (power to the

people and all that). But I have to admit that his remedies do make a great deal of sense, and that it will take some real revolutionary changes to get us out of this mess we're in. I must say that, for the most part, big corporations (and I've worked with quite a few, as a customer, employee and supplier) do take advantage of the "other" stakeholders (employees, suppliers and customers!) and that, often, senior management is much more concerned with feathering their own personal nest than in doing the job that they're paid a lot of money to do. That's pretty frightening, because it's in the hands of these managers that the future of corporate America rests. I just hope that somehow we can get them to listen. I'd sure like to buy about fifty copies of this book and send it to some senior managers I know (anonymously, of course!) 15 of 17 people found the following review helpful. Thought provoking, but not convincing

By Christopher A. Smith
Managers currently has as their mandate the creation of shareholder value. Kennedy advocates discarding this benchmark for a new, fuzzier set of measures that addresses the needs of other stakeholders (employees, government, environment, suppliers). This is neither necessary nor appropriate; shareholder value works - and in effect successfully considers non-shareholder stakeholders. Kennedy makes some interesting points in this book, but in the end in his quest to end the philosophy of shareholder value he is throwing the baby out with the bathwater. Kennedy's contention is that high paid managers of our public corporations are running their companies into the ground in the pursuit of, as he repeatedly calls it, "higher share price now." They are, he claims, mortgaging their companies' futures for profits today. Kennedy does not make a particularly strong argument for this view; his examples of current corporate abuses are weak, and he ducks issues that would contradict his claim. The two main case studies Kennedy presents are General Electric and Cisco. Both companies, even by his reckoning, are rock solid companies. They will continue to grow, both in revenues and probability. The problem? A) their stocks are overvalued and B) it is unlikely that they will continue to grow at the same astronomical rates. Fair enough. But this is not much of a criticism on management. Kennedy consistently fails to show that managers are acting inappropriately, or that they're actually destroying value. This book might have more appropriately been titled "the markets are out of their minds." The correction will come. In this vein Kennedy's argument is convincing. That's not to say that I think that Cisco is a bad company, nor that the Cisco managers have acted inappropriately. Indeed, they've performed splendidly. We have every reason to believe that the company will continue its success. However it is inappropriate that the stock is currently trading at 100+ multiples. An important principle of market theory is that the stock price is a proxy for long-term profitability. As we've seen in the Cisco case, this does not work perfectly all of the time (that is what market corrections are for). The market whips around as the speculators move in and out based on quarterly earnings and other news, but in the long run the stock price should reflect all available information about the company which impacts the company's long-term profitability. Kennedy includes entire chapters on the destructiveness of the shareholder value movement on governments, suppliers, and employees. However, his treatment is superficial - these interests (those of the shareholders and the various stakeholders) should in the long-term be aligned. A company who abuses their employees will see their intellectual capital flee as employees leave to work for the competition. This affects the share price. A company who flaunts environmental regulations should in the least be affected adversely by customers who choose to buy from more responsible firms, and in stronger cases be sued back to the stone age. This affects the share price. End the end companies add value to society by being profitable. The efficient market hypothesis tells us that the share price is a proxy for this long-term profitability, incorporating all available information. Kennedy never explicitly addresses this theory; this is the book's biggest blind spot. Some of the recommendations are insightful; particularly those that deal with the composition of corporate boards and with the release of information. This is a provocative and though provoking book, but in the end Kennedy makes a weak case for throwing out the benchmark of shareholder value as the motivation which guides our corporations. 1 of 3 people found the following review helpful. exercise in fuzzy thinking

By Svetoslav Tassev
This book is an exercise in fuzzy thinking. Kennedy is totally confused about what shareholder value is. He is confusing shareholders' legitimate desire to get a meaningful return on their capital (enough to compensate for the risk they assumed) with management's unscrupulous attempts to increase reported EPS over the short term. Whatever contributes to the former creates shareholder value. Whatever contributes to the later, doesn't necessary do so. The puruit of shareholder value has nothing to do with unscrupulous management. But that's not all. He doesn't understand the mechanics of a modern capitalist economy nor does he understand the interactions among different groups in society and the fundamental principals of business valuation and corporate finance. I should also mention his constant misinterpretation of facts: Kennedy is idealizing the 19th century entrepreneurs as men who started their businesses only for the sake of the common good. Wealth, according to him, was only a byproduct of their charitable attempts to improve society. I doubt if that was true. Being open about one's own greed was not an acceptable social behavior in 19th century. Subsequently, men of wealth tried to come up with noble excuses for their profit seeking. Kennedy argues that maximizing shareholder value ignores employees, customers, suppliers, communities and the government. If that was true then everything we know about modern Economics must be wrong! Let's start with employees. Do they really suffer from shareholders' attempts to maximize their own profit? If shareholders didn't care about profit, they wouldn't start the business to begin with and without the business, employees would have nowhere to work. Conclusion: profit seeking (maximizing shareholder value) creates value for workers. The alternative would be a centralized communist economy where government runs all businesses.

Business ventures are not evaluated by the profits they could generate but by the amount of people they would employ (more is better). What about governments? The purpose of government is to serve the people. Government has no other purpose. Therefore we can not say that corporate behavior harms government unless that behavior harms Society. Harm done to a government by a corporation that doesn't harm Society is no harm at all. An example would be any legal attempt to minimize taxes. It harms government because it decreases the amount of funds available to expand bureaucracy but it benefits Society because businesses can allocate capital more efficiently than governments. What about suppliers? Are they being harmed by the "shareholder value menace"? Suppliers are also businesses with shareholders of their own. Each and every company is both a buyer and a supplier. If a company is being squeezed by its customers, it can always attempt to do the same to its suppliers. It is true that many communities, many local and national governments, and many workers end up abused by businesses (big and small). It is also true that many businesses are being endlessly abused by militant labor unions and governments. It doesn't follow that business owners should be prevented from seeking lawful ways to increase their wealth. Kennedy even goes as far as to argue that increasing shareholder value harms shareholders. Here logic fails him completely. The discussion of GE is an illustrative example. Although Kennedy admits that GE's cost cutting initiatives increased value for current shareholders, he claims that the inflated stock price at the end of 1999 will prevent those who buy today (1999) to realize similar gains. True. So what? No one is being forced to buy overpriced common stock. People suffer their own ignorance about corporate valuations. Do we need to hold CEOs responsible for holding their stock prices low so that anyone, who buys a share of common stock at any time, can have a decent return? Wall Street does not hold CEOs responsible for the stock price of their companies (low or high). It does hold them responsible for the operating results. Stock prices take care of themselves. His recommendations for change are even sillier than his criticisms. He suggests to replace the pursuit for shareholder value with...building shareholder wealth!!! If I were a Boston snob I could probably see the difference but I am not. It sounds all the same to me. Arguing about the usage of words and terms (among vs. between; many vs. a lot; shareholder value vs. shareholder wealth; etc.) is intellectual no more challenging than collecting stamps or baseball cards. If the Boston snobs think otherwise then I would let them have it their way.

"Allan Kennedy provocatively proposes that running corporations to benefit shareholders damages companies and the societies they operate in. [He] has raised questions about managing for shareholder value that someone will have to answer." -Mark Henricks, *American Way* "Allan Kennedy has always seen the corporation in its full cultural context. Now he demonstrates that corporate managers have mistaken the shareholder value formula for the building of true wealth. His fascinating stories of companies make both great reading and a compelling case for the broadening of corporate objectives." -Stan Davis, co-author of *Future Wealth and Blur* In *The End of Shareholder Value*, Allan Kennedy calls for a revolution in business—for customers, employees, political and social leaders, and governing boards to challenge the cozy relationship between executives and investors that has crippled companies in the name of maximizing shareholder value. From GE to the hottest new Web-based start-up, those companies that subscribe to the shareholder value ethic cannot be sustained and will, inevitably, be replaced by those who figure out how to create and share wealth among all stakeholders. Provocative and wide-ranging, *The End of Shareholder Value* challenges everyone to rethink the purpose of business in the new millennium.

.com After two decades of taking the money and running, it's time for corporate managers to seek to make a difference as well as a buck. That's the thesis of Allan Kennedy's analysis of the state and likely fate of corporate America at the turn of the new century. It was Kennedy who, in 1982, cowrote the bestselling *Corporate Cultures*, which gave us the notion of the heroes, rites, and rituals involved in modern business. Here, Kennedy argues that shareholder value--using discounted future cash-flow streams rather than traditional accounting measures such as earnings per share--has become the final gauge of a company's worth. This emphasis will have potentially dangerous unintended consequences for everyone, he says. Management's shortsighted focus on squeezing the last penny out of every part of the business has exploited its key stakeholders. Faced with downsizing, outsourcing, and hard (sometimes deceptive) bargaining, employees, suppliers, governments, communities, and customers are each beginning to turn on companies in ways that now threaten the future success of the companies themselves. The result today, he writes, is an overvaluation of stock prices that's "simply a symptom of the failure of the shareholder value ethic to produce anything of lasting value." The book outlines three eras of business evolution, from the family enterprises of the 19th century, through the engineers and inventors of the immediate post-World War II period, to the financial entrepreneurs of high technology. As it briefly chronicles the growth of some of the corporate icons of each era, the portrayal is not always favorable, particularly when it reaches the present. One is tempted to think of investment bankers and venture capitalists as the Svengalis (or Rasputins) of the high-tech economy, whose machinations have led to "insupportable levels in the stock market [that] should be known as the shareholder value bubble." Finally, Kennedy proposes remedies to create real, sustainable wealth for all of a company's stakeholder groups, not just the stockholders. While there's little to dispute in these rather general proposals, his recommendations for overhauling the way boards of directors are chosen and operate are thorough and well argued, radical even. Kennedy is a bit of a Cassandra in places. He's very skeptical of

even the small nuggets of promising Internet trends and statistics he himself quotes. Nevertheless, the book is provocative and timely. Perhaps the most important point is its resuscitation of the old discussion about the wider, social purpose of business--a debate that's been forgotten in the flush of the "new economy." --Alan J. White "From the co-author of *The New Corporate Cultures*, a radical suggestion: that there are other indexes to corporate health than quarter-to-quarter shareholder happiness. "Allan Kennedy provocatively proposes that running corporations to benefit shareholders damages companies and the societies they operate in. [He] has raised questions about managing for shareholder value that someone will have to answer." -Mark Henricks. *American Way* "Allan Kennedy has always seen the corporation in its full cultural context. Now he demonstrates that corporate managers have mistaken the shareholder value formula for the building of true wealth. His fascinating stories of companies make both great reading and a compelling case for the broadening of corporate objectives." -Stan Davis, co-author of *Future Wealth and Blur*"About the Author Allan A. Kennedy is a management consultant and writer. He is co-author, with Terrence E. Deal, of *Corporate Cultures* and *The New Corporate Cultures*. He lives in Boston, Massachusetts.