

Koller, Tim, Dobbs, Richard & Huyett, Bill – Value – The Four Cornerstones of**Corporate Finance, John Wiley & Sons, 2011, [Business] Grade ★★★★★**

More than twenty years ago McKinsey & Company published the book *Valuation*. It became the de facto required reading for the coming generations of aspiring young equity analysts and portfolio managers struggling to master the craft of performing a cash flow valuation, a DCF. Now McKinsey through three of their consultants publish the sequel called *Value*. Let's hope this text will also become required reading. The perspective is turned on its head and the focus has shifted to how corporations should manage their business to build long term shareholder value, but also on how they should try to understand the unfathomable equity market and build mutually beneficial relations with the right investors.

The practice of corporate governance at larger institutions often try to balance the many viewpoints of different so called stakeholders, be that employees and their right to unionize, the society and corporate disclosures of pollution levels etc. Sometimes the governance slightly loses track of one stakeholder: the investors in the mutual fund itself, the future retirees of the pension fund etc. This book concern itself with the owner as a stakeholder. Don't get me wrong, corporate governance often covers shareholder rights at AGMs etc. Normally, however, it doesn't cover the more strategic and operational ownership issues that a corporate board faces.

Topics covered includes a motivation of why long term shareholder value is a concept to take to heart; the value creation process in itself with growth, ROIC, competitive advantage period and cost of capital as core concepts; how to think about risk and make sure the company doesn't lose value as soon as it's created; methods for management to structure their reasoning regarding the stock market; and also valuable opinions on methods for corporate communication with investors, so called IR.

In many ways the book is a contemporary version of the huge number of value based management books that was published in the late 90's. The ground breaking classic in the genre being *Creating Shareholder Value* from 1986 by Alfred Rappaport. The grade "2" for knowledge is perhaps slightly generous. You have heard or read about most of the topics previously, often also in greater detail. The great benefit of the book is that it covers almost all of the aspects that a company would need to think of in this area. It's all there, how to think about M&A, dividends versus buy backs, the balance between profits today and profits tomorrow, risk management etc. It's also an easy read with limited financial jargon, written by experienced consultants. And it's all pretty much correct in my view.

The bonus on top of that accessibility and broad coverage of relevant topics is that the big consultancy McKinsey brings back the important - but due to greed and short termism by the likes of Enron and Worldcom discredited - topic shareholder value into the limelight. The shareholder is the receiver of the residual cash flow after all other stakeholders get their compensation. Only he play the important role to try to balance all others claims. If this is not done properly and shareholder value becomes a forgotten concept economies will not allocate its scarce capital efficiently and the well-being of our societies will decrease. This is important and this is why I hope we have seen the birth of a new standard volume to be read.

Investors should read the book to become better owners. Corporate managements and those in the IR departments will gain a better understanding of why they are in business in the first place.

Mats Larsson, August 12, 2011