

Lev, Baruch – Winning Investors Over

Harvard Business Review Press, 2012, [Surrounding Knowledge] Grade ★★ ★

This is a solid book. It's not an investor relations handbook but rather an experienced professor giving advice to CEOs and corporate managers on how to view and handle the stock market. Baruch Lev is a professor in accounting and finance at Stern School of Business. He has also held positions at the University of Chicago, the Hebrew University of Jerusalem, Tel Aviv University and Berkeley. With five books and over a hundred published studies in leading journals, Lev is a very seasoned advisor to have by your side. The chapters are structured into three main parts where the author first discusses how to handle investor related emergencies such as when results miss consensus earnings, informing investors of adverse news etc. Secondly, Lev addresses the topic of how to earn the trust of investors and finally a number of real or perceived conflicts between owners and managers are analysed. The latter two parts are better than the first.

Out of the text's many discussions I think I appreciated the one on how to handle corporate social responsibility (CSR) issues the most. Managers or not, most people strive to follow the informal motto of Google; "don't be evil" and within the corporate sector, as the author points out, the CSR movement has won the battle of ideas. Hence CSR issues must be addressed by management. At the same time the thought that companies should serve all stakeholders, not only shareholders, poses a problem. As professor Michael Jensen so eloquently puts it "*It is logically impossible to maximize in more than one dimension at the same time ... whereas [shareholder] value maximization provides corporate managers with a single objective, stakeholder theory directs corporate managers to serve 'many masters.' And ... when there are many masters, all end up being shortchanged.*" Why is this so serious? The reason is that the productivity improvements driven by the effort to enhance shareholder value is the very engine of wealth that has brought humanity from the dark middle ages to where we

are today in the so called developed markets. We should never take this relatively comfortable and secure life for granted. Without corporate productivity we'll very quickly be on a slippery slope downwards. The author insists on placing shareholders as the prime stakeholders in the company and first proposes that the CSR initiatives that also benefit the bottom line naturally should be undertaken (this also includes insurance like measures that prevent CSR mishaps that risk to harm profits). That's an easy one. What if there is no shared value creation? Lev's proposal is that initiatives "*which the company can do substantially better, in benefit-to-cost terms, than its shareholders?*" is worth perusing. I don't agree, as it were, but I appreciate the attempt to a logical and structured approach.

Other topics covered include how to handle activist investors, a very good discussion on manager compensation that touch on the disturbingly weak relationship between performance and pay, an equally useful analysis on whether shareholders really are as short sighted as they are portrayed (no, they're not), the tyranny of 'ticking the box' corporate governance, shareholder information and, for a European, a scary tour of class action lawsuits. Solid discussions overall even though they at times have a slight academic ivory tower feel. The subtitle of the book is "Surprising truths about honesty, earnings guidance, and other ways to boost your stock price". The boosting angle is my prime objective to the first part of the book. An effective earnings call is described as one that creates an immediate share price increase and Lev gives advice on how to achieve this and on page 37 the advice is that "*Unless the earnings shortfall is small and temporary, you should resist quick fixes [...] for the sake of making the numbers.*" Ouch. Given the sound advice in other parts of the book, examples like these give a slightly schizophrenic impression. All in all this is a practical, guided tour into the strange land of the stock market – it could have been more stringent though.

Mats Larsson, April 21, 2013