Mayer, Collin – Firm Commitment

Oxford University Press, 2013, [Surrounding Knowledge] Grade ★★★

I'm often baffled by the fact that many talking heads never seem to have read any of the important texts on the subject they are scolding. The reader of this book will search the literature list in vain for Alfred Rappaport's *Creating Shareholder Value* etc. It would seem that it's only by coming up with his own definition of shareholder value that Oxford business Professor Collin Mayer can find something really juicy to criticize.

Mayer's story goes like this: as is evident by Enron, Lehman, BP and the bail outs of banks there is something wrong with the corporation. However, the culprit is not the corporation per se; it's the concept of shareholder value. The leveraged capital structure of a company gives the shareholder incentives for risk taking and exploitation. If a corporation would refrain from short term exploitation of other stakeholders it would be taken over by a more aggressive corporation who would pursue that agenda. This leads to a corporate world without commitment. The reader has to decide for himself if he agrees that the corporation is failing the world. I don't, and would point to Enron and the others as exceptions rather than the rule. Even if the reader thinks the corporation is turning into a blood sucking vampire, does Mayer point to the right culprits?

The learned Mayer isn't easily categorized, which is a good thing. Irrespective if you agree with him he should receive credit for trying to come up with a comprehensive solution. So what does it look like? For quoted companies all the ownership rights of shareholders are revoked. For not yet quoted companies the expropriation coincides with the IPO. Shareholders in a sense end up with owning subordinated, perpetual bonds without specified coupons. These they are allowed to trade at will. The ownership, i.e. the voting rights of the shares are restored if the investor registers his shares, specifies for how long he plans to keep them and allows the shares to be locked up. The longer the time the more votes are awarded per share. The board is reshaped to a board of trustees that make sure the company remains true to its original values and intentions and that the interests of all stakeholders are respected. These trustees could either be elected by the shareholders, other stakeholders or even by self-electing. It's up to each company to define if the purpose of it should be entirely commercial or if it should mix commercial, public and charitable activities. Committed long term owners now rule, trust is restored, a sustainable business sector is born and the world is a bright place.

In my world the owners with the longest time horizon are index funds. Longevity does not equal active engagement. Through the book there is an odd notion of the company as an almost living entity of itself. Ownership is in some ways delegated to its management and the author has some kind of romantic notion around the elevated moral leadership of past times' patriarchs, for example that of the Cadbury family. The trustees "*are the priests and rabbis of the corporation*". In my mind public tasks should be handled in a democratic order and should not be delegated to benevolent "priests" at the top of the corporate ladder. I'm also of the firm opinion that the "*business of business is business*". This division of labour has created today's wealth. Those who try to reach several goals simultaneously seldom reach any of them.

Mayer makes the error of confusing shareholder value with the immediate share price. Shareholder value is built by maximizing the eternal future discounted cash flows by employing strategies that could very well focus on quality products etc. If a company builds shareholder value then the share price eventually will follow. The cash flow is the money that's left after all the other stakeholders have been paid. If the other stakeholders really were routinely exploited they would seek another employer, supplier etc. and the shareholder value would dwindle. Even if the purpose is to create shareholder value this cannot be done on the expense of stakeholders.

Mats Larsson, June 30 2013