

**Stern, Joel M. & Shiely, John S. – The EVA Challenge**

John Wiley & Sons, 2001, [Business] Grade ★★ ★

The 20<sup>th</sup> century saw a shift away from family owned and managed companies to a model with dispersed ownership and corporate management as a profession, not an inheritance. The split between ownership and control opened up for the conflicting interests that are the focus for today's so called Corporate Governance.

One reasonable way to ensure that managers work in the interest of the owners and not just themselves is to align their interests. Presumably you then would have to figure out what the interest of owners is. Important here is the dual role as investors and as owners - with the ownership rights to one's assets that follows. Investments are to forego current consumption with the intent of receiving more assets to consume in the future. So investors require a return on capital and this is in turn paid for by productivity and innovation in companies. Hence, what shareholders want is to see that the intrinsic value of what they own increases. Note that this isn't necessarily the same as the price of the asset as manifested in the stock market.

EVA, Economic Value Added, is a measurement system, a management system and an incentive system that aligns the economic interest of those working in the company with the aim of maximizing the long term intrinsic value of the owners' assets. However as noted in this book, EVA is neither a strategy nor a template for processes or organizational design. EVA clarifies what to aim for and points to priorities but the "how" is not spelled out.

The subtitle of the book is "*Implementing value-added change in an organization*". Joel Stern is one of the pioneers in developing the theories of so called Shareholder Value. John Shiely was at the time Chairman and CEO of Briggs & Stratton, a

producer of air cooled engines for outdoor equipment and a user of EVA. One academic / consultant and one practitioner should be perfect to answer the "how". A number of topics are discussed in the various chapters. They include the rationale behind EVA, the role of the CEO and CFO in the implementation, communication to and training of the workforce, details of good incentive systems that promote long term value creation, EVA in relation to M&A and much more. To be honest, the writing here is hardly original, the text is a bit too promotional and it also feels slightly dated. The value of the book comes in chapter 3 and 4 that tries to link the company's business environment and the choice of strategies with the effect this has on EVA-implementation and organizational design. If this "cross pollination of the thoughts of Michael Porter, Alfred Rappaport and Henry Mintzberg" had been extended and deepened *The EVA Challenge* could have been a great book – now it's just a worthwhile read.

I'm a strong proponent of the Shareholder Value thought, although not in the vulgar and incorrect form it's portrayed in current media. It's definitely the case that the model in itself doesn't discriminate against growth per se. However I can see a potential problem in the strong focus on the present efficient capital usage as this might make the company less forward-looking, something that can be fatal in an ever changing environment. However, this book and others like it are still immensely important. If you walk into a bank to lend money, very few of us would be utterly surprised by the fact that the access to capital comes with a cost. Yet when capital is used inside companies the fact that it comes with a cost at times, apparently seems totally incomprehensible to people. This has led to endless mismanagement over time.

Mats Larsson, September 10, 2013