Buddhist Economics
The case for shareholder value

I'm Alan Shipman, from the Open University Economics Department, and I'm going to jump back a decade to put the positive case for Shareholder Value.
You may think of a business as a place that gives work to people, and produces goods and services. So you judge its value by how good the products are, how well it treats its staff, and what it does for the local community. This may be influenced by its mission statement, which is bound to talk of serving the public, attracting and nurturing talent, being a great place to work, improving the customer experience and respecting the environment.
You probably also think of other organisations – like schools, colleges, government departments, hospitals, charities, galleries and museums - as very different from business companies. They're not there to make profit. They reach parts of society not served by commercial activity, providing things that money cannot or should not buy. Economists have a simpler and much more powerful view of the company. For them, it's simply something that generates profit. If – like most companies – it's owned by shareholders, its one purpose is to make money for those shareholders. As the company's share price encapsulates investors' expectations of its future profit, then its success can be gauged by its share price. The best companies command the highest price, maximising their value for shareholders. To those who believe in shareholder value, companies that neglect shareholder value don't just let their owners down. They damage everyone in society. Because it's the battle to maximise shareholder value that forces firms to deploy the best technology, raise efficiency, create safe and high-paying jobs for well trained employees, and serve customers who can otherwise take their trade elsewhere. This means that companies that are shielded from shareholders will do a bad job – misallocating resources and missing out on new technologies. And organisations without external shareholders will do an even worse job, because there's no-one to monitor their use of resources and punish waste. So mutual societies, cooperatives, public agencies, even family- and employee-owned businesses are expected to down – lacking the shareholder-driven company's ability to raise resources for investment, and the discipline to get the best return on that investment. In the 1980s, economists forged an unlikely alliance with business journalists to expose the appalling consequences of neglecting shareholder value. They lifted the lid off big corporations whose managers were living in luxury , on unmerited bonuses, while their workforce struggled on low pay with out-of-date machinery, and then antiquated products fell apart in customers' hands. Because these companies weren't concerned with maximising profit, the managers were letting costs rise and quality fall, and missing out on innovations. Standing up for shareholders no longer meant enforcing the rights of a small clique of the already rich. Thanks to the growth of pension funds and investment trusts, the new shareholders were ordinary working people. Destroying shareholder value meant robbing them of investment and retirement income. Managers who let their share price dip used to say they were protecting their employees and customers from voracious absentee owners. But now, with most people saving into banks or investment funds that held the majority of UK and US shares, maximising shareholder value was in everyone's interest. So, with institutional power and – they said - economic justice on their side, activist shareholders went into battle against lazy management. They sacked the bosses who'd let value decline, appointing successors who excess costs and got profit flowing again. If a management team was beyond repair, shareholders sold out - pushing the price down till someone else bought the company and brought it back to profit, or broke it up. They dismembered the sprawling conglomerates, whose managers had stepped beyond their 'core competence' and, like boardroom imperialists, taken on businesses they didn't know how to run. Having shaken up the publicly listed companies, the value-maximisers looked round for other enterprises that had dodged the magic bullet of shareholder discipline. They promised that public enterprises would eliminate waste and return to profit if floated on the stock market. Governments welcomed the opportunity to sell off state-owned companies – which also gave an easy way to cut public debt without raising taxes. And it wasn't just nationalised industries that returned to the market – shareholder-driven principles found their

way into education, healthcare and housing, inspired by the forprofit schools and hospitals that were sweeping America. Managers of mutual societies, cooperatives and other business forms were persuaded that they'd fall behind unless subjected to the same external discipline. So building societies, family businesses and partnerships queued to float themselves on the stock market, releasing the equity value they'd lost or locked away. To the shareholder value revolutionaries, the success of this campaign was evident all round by the turn of the century. Productivity in Britain and America, the vanguard of the shareholder revolution, had moved from stagnation to rapid growth – much faster than Germany, France, Japan and other countries where shareholders' voice was still muffled. Units of the broken-up conglomerates performed much better than the empires they'd been freed from. Privatised companies ceased to need subsidy and actually made profits for shareholders, while still apparently doing well for customers. Privatised electricity and gas bills initially fell. Privatised telecoms brought us broadband and mobile phones while Royal Mail, its shares still trapped in government ownership, got lost in the post. Putting shareholders in charge had rewarded employees – as wage earners and pension fund members – and had made Britain and America the world's dynamic economies. Bastions of wider 'stakeholding', like Germany and Japan, were being forced to move in the Anglo-American direction. Or so the shareholder value revolutionaries were eager to claim, as the Millennium arrived.