

January – February 2005 | Business strategy brief

Say it loud, say it proud: “Shareholder Value!”**On our minds**

“Leadership, in the memorable phrase of the poet Rudyard Kipling, requires the ability to ‘trust yourself when all men doubt you.’”

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by Didier Reynders
Deputy Prime Minister
and Minister of Finance
of Belgium

Remember the phrase “creating shareholder value”? The expression nearly died of shame after WorldCom’s Bernie Ebbers made quarterly stock analyst presentations by pointing to a nearly vertical share-price chart and challenging: “Any questions?”

That’s why Microsoft’s recent decision to pay out US\$75 billion in dividends over the next four years was so refreshing. CEO Steve Ballmer left no doubt about the future of shareholder value: “I’m confident we have some of the greatest dollar growth prospects of any company in the world.”

Restoring public trust in business is essential. But far more important is performance itself. In an analysis of publicly traded companies around the world, Bain & Company found that, from 1992 to 2002, those failing to earn more than their cost of capital destroyed US\$1.7 trillion of value. By contrast, major fraud cases over the last three years destroyed US\$200 billion of value.

Fraud cases don’t just dominate the headlines; their fallout makes senior managers more risk-averse. Because of scandals like WorldCom’s, many CEOs shy away from bold actions. Instead, they’re preoccupied with distractions.

The first is countering the charge that all senior executives are crooks who justify their crimes by citing shareholder value. Many CEOs understand they can’t win this debate. So they remain silent. They deal, instead, with the hassles of Sarbanes-Oxley, Congress’s attempt to legislate trust, and the Higgs rules in the U.K.

Besides Mr. Ballmer, another exception is Caterpillar Inc.’s CEO Jim Owens. Mr. Owens, whose farming and construction equipment company hasn’t missed a dividend since 1925, announced two increases last year—in fact, since 1993, it has increased its dividend tenfold. He called this part of Caterpillar’s “ongoing commitment to improve shareholder value.”

A second CEO distraction is corporate image. CEOs spend more and more time on the repu-

tational front, promoting good deeds in an effort to be seen as “giving back.”

No one would argue against social responsibility. But Nestlé’s chief executive, Peter Brabeck-Letmathe, whose tenure has seen the company’s shareholder return grow in double digits each year for a decade, has tired of being on the defensive. He recently asked, “Is the implicit idea behind “giving back” that companies incur a debt to society simply for being successful? In my view, the first priority for any CEO is to ensure the creation of long-term shareholder value.”

Yet a third CEO preoccupation encompasses geopolitical risks, terrorism and the global economy. For instance, US companies increasingly worry about the “American-ness” of their brands overseas. In Saudi Arabia, where American products are threatened by boycotts, Procter & Gamble has long produced Tide detergent locally. Recently, P&G changed its packaging: “Made in Saudi Arabia” now appears prominently on the label, and in Arabic.

CEOs have to reclaim their agenda. Consider the example of Gillette. The company missed Wall Street forecasts for 14 quarters before Jim Kilts became CEO in 2001. Mr. Kilts refused to provide specific earnings guidance. Predictably, analysts responded by questioning Gillette’s stability. But Mr. Kilts had gained a mandate to make long-term shareholder value his touchstone. Two years later, when cash flow had doubled to US\$1.7 billion, analysts changed their tune. The moral is that CEOs must have the confidence to set long-term goals and the will to communicate them clearly.

CEOs must earn public trust the old-fashioned way—through performance. That’s what Jim Kilts did. That’s what Peter Brabeck-Letmathe and Steve Ballmer have done. And by promising “continued shareholder satisfaction,” that’s what Caterpillar’s Jim Owens plans to keep on doing. Ultimately, the trust that companies build through continuous, solid performance outshines every other consideration.