"How you make a difference to people - why shareholder value is a lousy motivator and how to find a better way"

[youtube:http://www.youtube.com/watch?v=p-xsJrEcK70 w auto]

Video of event on motivation, corporate performance and issues relating to fund managers - many fund managers are typical of those in other industries. They often lack passion for what they do because they don't understand the real impact they have on other people's lives - most of the wealth they invest is owned by pensioners / savers. Performance, size of management charges etc really do matter.

THIS ARTICLE WRITTEN 2005 before global crisis. MARCH 2009: Jack Welch ex-CEO GE admits obsession with shareholder value was mad and led directly to current crisis.
You can have the greatest strategy in the world but if your vision of the future is wrong you just land up travelling even faster in the wrong direction. A prime example of this is the dangerous obsession with shareholder value and bottom line profit, which has driven board policies of many multinationals to the point of distraction and damage. Just look at the sub-prime crisis and the credit crunch of 2008.

See new book Building a Better Business - the future of marketing, management and motivation.

[youtube:http://www.youtube.com/watch?v=VTE5zd-qk-s 300 250]

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The language in some corporations is already changing. "Shareholder value" is being retired

from such places as corporate websites. Expect further steps in this direction over the next three to five years.

1) Shareholder value has failed to motivate boards or staff

"Shareholder value" has been a useful emphasis for companies which were insufficiently focussed on profit-making, cost-reduction and share price, particularly in a difficult economic climate where falls in share prices can lead rapidly to a hostile takeover. We have seen a number of events where wrong decisions have destroyed vast amounts of wealth in a short time, so many have argued that more attention to shareholder value is needed, not less.

But "shareholder value" implies that shares themselves have a "value" which has a rational basis. As we saw in the dot com boom and bust, and on many other occaisions, this is often not the case. On the contrary, we have witnessed an increasingly fickle and restless market, which has imposed near-impossible demands on boards to produce perfect results every quarter, resulting in very short-term thinking by executives.

Many CEOs have been acutely frustrated to find their well-crafted strategies swept away by alarming share price wobbles, each an over-reaction to some small piece of news about their own company or a competitor, or the industry or wider operating environment. "Our current share price makes no sense" is a common cry.

Too high a price can be just as damaging as under-valuation, because when the inevitable correction comes, the CEO can be hammered in the media for "destroying shareholder value" with "billions wiped off the value of the corporation in just a few months". The reality may be that the market over-priced, and is now under-pricing. Nothing much has changed in the meantime in the fundamentals of the business.

In any event, the outcome of prolonged turbulence is often the rapid departure of a Chairman or CEO who may in fact be a stronger and more experienced leader than the person dragged in at high speed to replace them.

It is all a question of perception.

A further complication is that CEOs are finding it increasingly difficult to know who their shareholders really are. The average share owned by an individual in the US is kept for just weeks or months. Churn has never been higher. Institutions are also constantly changing the balance of their investments, buying and dumping proportions of the same stocks on a daily basis.

The end result of all this is that every corporate strategy tends now to be accepted or rejected according to how the board thinks the market will react, and the market reacts how investors think other investors will react - based more on psychology, mood, emotion and intuition than pure logic or longer term conviction. Because investment funds often hold such large percentages of total shares, many CEOs are having to spend huge amounts of time trying to

persuade a few individuals inside these institutions that they know what they are doing, and that the share price will rise.

I have sat in many internal presentations by CEOs to their own top teams, where they have laid out goals such as "increasing market capitalisation by 35% in three years" and so on. Even in a rising market such word and number games looked faintly ridiculous, since achieving such goals usually depends on a number of external factors such as competitor merger and acquisition activity. But in a falling market these kind of targets make a previously confident CEO the laughing stock of the corporation, and of the investment community. How do you measure shareholder value in a recession?

In the recent down-turn, many companies resorted to ever more complex graphs, formulae and tables to show how their own market capitalisation had fallen less than a benchmark of a carefully selected group of competitors. But every business is unique, particularly in these days of aggressive globalisation and multiple business units, so such comparisons can be superficial and naive.

"Underperforming" or "outperforming" are at the end very difficult judgments, which unfortunately are often muddled by short-termism. The most important assets of many companies are notoriously hard to value: for example the creative brain-power of a very talented new senior team, or a pipeline of products for a pharma company, none of which will come on-stream for a decade or more, or the future potential of a group of wealthy clients for cross-selling a new product range, or the good-will and respect at the highest levels of the government in China and so on.

You may disagree: you may consider yourself a great expert on corporate valuations and assessing corporate performance, but there is another, more fundamental problem. The trouble is that "shareholder value" (even if it can be reliably measured) cannot by itself as a concept create value. Nor can it create vision, nor direction, nor purpose, nor a sense of mission.

"Shareholder value" as a concept does not invent products, neither does it promote initiative, nor create ideas about new services. Nor does it inspire people to greater efficiency, especially when those efficiencies may come at inconvenience and cost to themselves or those they care about. For these and a host of other reason, by definition "shareholder value" cannot drive a business forward.

In fact the very opposite.

As we will see, "shareholder value" on it's own is a morally bankrupt, narrow idea that took root in investor minds, and then became the latest fad as a mindless, meaningless, last-century business mantra, chanted in unison by millions of senior executives around the world, despite the fact that those same executives were already bored to death by it.

Morally bankrupt because the only obligation in such a narrow business philosophy is to those owning the corporation. Obligations to treat customers well, or staff fairly, to care for community and environment, are seen only through the lens of how such activities add or detract from

"shareholder value". Such corporations have been rightly condemned by the public as having no heart, as being amoral, interested only in profit, ready to break the law, bend the rules, exploit the vulnerable, if the end result is higher dividends and share prices.

The current focus on corporate ethics is because our society is coming to recognise that trying to build "shareholder value" without strong ethical values is a complete nonsense.

In any case, "shareholder value" is a useless motivator. Who on earth wakes up in the morning and thinks: "What a great day - let's go and make some extra shareholder value, let's make some more dividends and make the share price soar?"

No one I have ever come across in corporate boards, executive teams or business school classrooms - unless it is their own personal startup or family business.

Executives are focussing today on other things, and the trend is becoming stronger. Just look at the growing number of people who are worried about their lack of work-life balance (almost 100% of every executive audience I have ever polled). Consider also those who are talking about down-sizing, turning down promotion, taking pay cuts. This is new. Different from the 1980s and early 1990s.

Look for a moment at those who are more passionate about the work they do for nothing (volunteering) than about their "jobs". Over 60% of Americans last year gave time to their communities - on average around 200 hours each - and the numbers are not much less in many other nations. But tell me this: who on earth "gives time" for no other reason than to make extra shareholder value for someone else? Who wants to go an extra mile for an employer just for that?

Take a global bank: who cares about making even greater profits for other people at year end? That is, unless their own job or bonus is at stake.

"Shareholder value" is becoming thoroughly discredited as a dominant business driver. Expect an even greater backlash followed by a major rethink across all industries by 2010. "Shareholder value" business gurus will be kicked out of corporate boardrooms, heavily criticised and held up to public ridicule - unless they change their message soon. It may happen faster than you think. Like waking from a deep sleep, the moment of recognition can strike a hard-pressed CEO in a moment.

I have rarely met a CEO or Chairman (perhaps never) of a publicly listed company who is truly passionate about either shareholder value or bottom line profit, or what the market thinks - compared to the passion they express when they talk about their families, the work they do for nothing in the community, or other things they believe in. A possible exception is where the company was started and taken to market by the individual.

This lack of passion and personal commitment is hardly a surprise when you consider that the average survival in post of a Footsie 100 company chairman or CEO before being sacked is just 38 months. That means many are told to go far sooner than that - maybe because they failed to

make their numbers for a couple of consecutive quarters. But if CEOs have no real passion for shareholder value, don't expect it further down the feeding chain.

Corporate investors show zero emotional commitment to company leaders in times of trouble, so don't expect emotional commitment by their leaders to the future shareholder value or profits of the corporation - unless merely as an expression of naked self-interest with their personal financial rewards linked to share price and so on.

2) It is factually incorrect to say that the only purpose of a corporation is to make shareholders wealthy

I am not for a moment suggesting that corporations should abandon a healthy interest in profitability and an aim to reward investors. However, some who have learned their last-century script from certain business schools or books, or have been infected by similar nonsense from colleagues, proclaim that the only possible purpose a business can have is to make money for the owners.

This is not only a very foolish position to take when marketing or building a loyal customer base, but is also factually incorrect, as a moment's common-sense reveals. We see the paradox revealed when marketing messages reach investors and the other way round. They are not the same and are often in conflct. In the past one could keep messages separate but in a web-enabled world they collide in embarrassing and counter-productive ways.

Marketing: we are here to serve you as a valued customer

Investor: we are here to make money out of customers to give to you

Many corporations are in trouble over this conflict right now.

Take an life insurance company: try telling policy holders that the only purpose of the company is to charge the largest amount possible given competitive pressures, to pay staff as little as possible, to pay out the absolute minimum to those who die, and to rip as much wealth out of the business as possible to give to shareholders.

Sadly that is not so far from the public perception of the insurance industry in general - and is what you get if you follow the "shareholder value" mantra to an ultimate extreme, and are overheard in public places.

But nothing could be further from the truth.

A life insurance company exists for only one reason, and was created for that purpose: to pay out... to families in the "club" who are in trouble because their relatives have died. Allied to that is a secondary purpose which is to enable members of the club to sleep at night, knowing that if disaster strikes, financial help will be available from pooled resources that the club has collected

in the past. All insurance companies are collective community-based organisations which are run to share risk.

Shareholders? Yes, capital is raised in the market, to expand and develop the number and range of such clubs, and those shareholders are rewarded for their help, with dividends and the expectation of capital growth. But you cannot drive a successful insurance company for long if you only talk about rewarding shareholders. It can only be a matter of time before you kill the business.

But insurance companies are not unusual: all businesses exist to satisfy the requirements of their customers - in a mutually rewarding and profitable way.

Lost the plot

Senior team members of many different corporations in different business sectors tell me things like: our staff are not passionate about the strategic objectives we have; our turnover is higher than we would like; our customers say that our call-centre staff don't seem to care; our sales team is demoralised and our rewards programme is not getting expected results; the image of our industry is not what we would like; people say we are greedy, they talk of fat-cat salaries, exploitation and so on....

But that is what you are likely to get when all people feel matters is making numbers on Excell spreadsheets. And incidentally, they may suspect that however outstanding last year's performance may be, the bar will always be set ever higher.

Imagine a restaurant where it says on the menu:

"We exist to make make a profit out of feeding you"

"This restaurant exists to make as much money every week for me, the owner, as I can possibly extract. That's why we always use lower cost ingredients where we can get away with it, pay staff a pittance, spend the minimum on cleaning the kitchens, and charge as much as we can persuade you to pay."

It would be out of business in a couple of months. Customers want a different kind of service. The want to feel that the whole focus of the restaurant is to give people a great eating experience in a wonderful environment. They want to feel that the owner really cares how the food is prepared, takes great personal pleasure and pride in every aspect of serving those who walk in through the door, is hospitable by nature and enjoys giving people a great time - not that he hates the restaurant and the people in it, would stop tomorrow if he could, and only does it for the money. It may be partly a fantasy, but they want to feel it is a reality.

3) How to motivate, encourage and inspire

Stop talking so much about shareholder value. Start talking to people about the people who buy

things from you : who they are, what they want, why what you do makes a difference to other people's lives (if you can't answer that, get out now, life's too short, time to find another job), and finally why you feel your corporate mission is so important.

Focus on customers as well as on making a healthy margin: meeting their needs, delighting them time after time with outstanding products and services, which you are able to provide in a profitable, sustainable and enjoyable way.

That's always been the basis of every business that has prospered.

"We are here for you" - not " We're only in this for the money."

Sadly, the morally empty obsession with shareholder value has encouraged a culture of greed, and an orgy of corporate excess, creating a the right conditions for a host of corporate scandals.

Future consumers will demand that success be measured on a far wider agenda.

Connect with all the passions people have and they will follow you to the ends of the earth, buy your products and services with pride and may even be willing to work with you for next to nothing.

The fundamental requirement for future corporations will be to demonstrate how you build a better world in a broader sense: not just for shareholders, but also for customers, consumers, colleagues and communities as well as for yourself and those you care for.

Just look around. It's already happening.