

Maximizing shareholder value

Management issue paper

One of the fundamental goals of managers, especially owner-managers, is to maximize shareholder value and the worth of their business. While some may argue that over emphasis on monetary value is detrimental to other stakeholders, such as labour and the environment, a stronger case can be made that stakeholder positions are actually enhanced by companies that actively manage value.

Here's why

Successful companies, ones that maximize shareholder value, enjoy higher overall productivity and competitiveness and are able to raise more favourable financing. These companies create employment, remunerate workers at levels that minimize dissatisfaction, and enhance job security as demand for their products and services is higher. Customers will receive higher quality goods than their competitors at a reasonable cost, and debt holders have better overall security and become eager to lend even more capital. This cycle becomes self-propelling to create momentum within companies, which strengthens the various stakeholder positions.

How should companies manage shareholder value?

First of all, it is important to remember that a company's value is future-oriented in nature. It is equal to the present value of its

potential future cash flow stream discounted by the market's required rate of return. Increased shareholder value should focus on strategies that maximize long-term cash flows.

Managers should also concentrate on areas that potential purchasers will consider in making acquisition decisions. For example, an acquirer of a pallet manufacturer may perceive value in the customer base since the technology to produce pallets is not sophisticated. On the other hand, a buyer of a peat moss producer would generally be interested in the bogs and the amount of peat reserves available. The pallet company maximizes its value with strong cash flows and a customer list containing national accounts, whereas a peat producer should have bogs or land leases on its balance sheet.

Companies maximizing their value have clearly-defined strategic plans that are forward looking and focused on long-term success. They have identified what businesses they wish to be in, and how they will win in that particular industry. The strategy is successful when the vision is shared throughout the organization and a sense of commonality and cohesiveness within the company is created.

Remember the old adage “give me a lever long enough and I can move the world.” It applies to business as well. Strong managers understand how to create value (i.e. valued customer lists or access to scarce materials). These managers often achieve the best results, not from large-scale efforts, but rather from well directed actions. They keep their “eye on the ball,” remain focused, and micro-manage well. When the little things are done well an organization will operate like a well-oiled machine.

Keep the ball rolling

It sounds simple enough. Unfortunately the process often breaks down during implementation. Building shareholder wealth is a long-term proposition. Momentum and commitment must be sustained over the long haul.

If increasing shareholder value is a goal of your business, contact your Grant Thornton adviser. He or she can help you assess the most practical strategies for success.

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