Footloose Corporations

Have financial markets destabilized firms?

English executive summary of the original study with the Dutch title

De ontwortelde onderneming

Ondernemingen overgeleverd aan financiers?

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Study and publication commissioned by Management Studies Foundation (SMS Stichting Managament Studies)

2009, Kon. Van Gorcum, Assen

ISBN 978 90 232 4541 4

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Introduction and summary

The business landscape is changing rapidly. Corporations seem to be in permanent reorganization. Divestments and takeovers have become the order of the day, and anyone who follows the share indices will be familiar with massive fluctuations in their composition. Until only a few years ago, the composition of companies contained in any major index, from the AEX to the S&P 500, could be regarded as reasonably stable. But the reality today is one of great upheaval. New businesses come, old ones go. Even more importantly, perhaps, there is now great public unease about firms' place in society. Financial market pressures seem dominant, and having quite an effect on the behavior of firms. Yet, for whom do firms exist? Who should have the power? And, especially, is there not a need for greater stability? After all, is a company not a form of collaboration that can only function effectively when there is some degree of predictability and stability? The developments in the financial sector over the past couple of years have only accentuated the uncertainty. Who would ever have suspected that the entire sector would reach the brink of collapse and that national governments would literally have to bail out their most important financial institutions?

Whatever the case, it would be no exaggeration to state that a sense of discomfort has developed concerning the place of companies as they relate to the financial markets. Even within the organizations themselves. Every senior executive is undoubtedly aware of the importance of "human capital" – the employees who collectively make an enterprise what it is. But this partnership can come under pressure if the corporate leadership senses that it has become a mere puppet of the financial markets and the whole circus of analysts, consultants, shareholders and other players in that arena. It may then be that the organization is being turned into just a tool of the market. How does this filter down through the company itself? Does such financial market focus affect management's loyalty to its workforce and organization at large? And does that undermine the business as a partnership? Is calculated self-interest – "What's in it for me?" – gaining the upper hand?

That is the arena in which this book attempts to provide some direction. To what extent are the concerns justified? Are the financial markets and shareholders really such a problem? As a financial economist, my angle of approach is bound to be viewed with suspicion. My field of expertise, corporate finance, is particularly concerned with the role of shareholders and of financial markets in general. Its principal focus is how companies are financed, the transactions they are involved in – mergers, acquisitions and the like – and external sources of funding such as financial markets and banks. The angle chosen in corporate finance is almost always that of the financiers. The company itself is viewed from an external perspective: from the outside looking in. The organization is thus in danger of being perceived as nothing more than a "black box", with its visible external performance overshadowing its internal functioning. This often translates into assessments based solely upon financial benchmarks – reported financial performance on the one hand and, on the other, the verdict delivered by the market in the form of the share price, credit ratings and so on. Indeed, the relatively easy access to such external data – especially share prices and ratings – has facilitated the dominance of the external perspective.

Finance researchers are all keen to focus almost exclusively on this financial market perspective, simply because there is a flood of data available. Analyses looking inside businesses are far less popular, with the main reason undoubtedly being the difficulty in obtaining internal information. A financial economist is thus tempted to solely focus on a firm's share price performance. Not surprisingly, the stock market's response to particular actions by the firm is studied quite a lot. For example, what happens to a firm's share price when it announces a merger? Is the reaction to its newly released results positive or negative? Apart from these "announcement effects", finance people also look at the firm's market value as compared with its competitors; this, too, provides a performance yardstick.

This approach can be characterized as a corporate finance or investor perspective. A whole cottage industry of analysts, consultants and investment bankers, and to an increasing extent even media, has grown up to provide this form of external assessment. In doing so they have made creating shareholder value – or even manipulating share prices, which in some cases is a better description – the focus of managers. The dominance of this attitude has in turn led to the development of internal management tools inspired by the company's valuation on the stock market. Businesses try for example to inspire the investor perspective within their organization by "managing for value".

What this means is that the corporate finance or external perspective has taken old of companies. Even the internal operations have become subjected to the corporate finance view. That realization is the key driving force behind this book: what are the consequences for the firms' operations of the more emphatic presence of shareholders and financial markets in general? Clearly related to this topic is the debate about private equity investors and hedge funds, and their perceived activism. What influences do they have?

At first sight, these issues seem mainly to affect listed companies. But their visibility has a considerable spill-over effect for other types of organizations. For instance, the jargon of the public (listed) company has entered the vocabulary of government. This is not surprising: corporate finance, financial markets and listed companies are always in the news and so they very much shape the general thinking about organizational management.

Although it is tempting to take the dominance of the financial market perspective for granted, a balanced perspective on the future of business needs a broader foundation. And that wider perspective is provided by the economic organization theory. On the one hand, this analyzes the optimum composition of activities a firm is involved in, whilst on the other, it studies a firm's internal organization and management. Such perspective draws labor relations into the picture and so allows us to analyze an important supplementary question as part of this study: what impact have changes in ownership and the role of financiers on the internal operations of firms, and the position of human capital in particular? The internal perspective complements the external "corporate finance" perspective. This book will start from the external perspective, and then peel away the outer layers in order to penetrate the firm's inner workings.

Key findings of the study

In the Dutch corporate world, the shareholder has very much become the centre of attention. There is currently a fixation with the financial markets and supposed shareholder activism, although in fact that is only an occasional phenomenon.[1] None the less, managers tend to change their behavior as soon as they feel or perceive a greater shareholder presence, or rather pressures from financial markets including analysts, media and consultants. In such cases, management more or less voluntarily allows a more "investor-minded" mechanism of accountability to drive its actions.

This does not detract from the fact that there are more "opportunities" for activist shareholders in the Netherlands than elsewhere, especially perhaps when compared with the United States. Dutch listed companies have a relatively open shareholder structure, which may well make them more sensitive to pressure financial markets. However, the predominance of shareholder-focused management must be explained by much more than activism or the threat of it. It actually seems as if management has succumbed willingly to the whims of the financial markets and in doing so has self-inflicted the turmoil. This observation adds a significant qualification to the supposed desirability of limiting shareholder influence over companies, in the sense that the main problem lies with management rather than shareholders.

1 One definition of activism in this context is "hostility towards incumbent management combined with efforts to force immediate change". In the case of private equity, however, this is most definitely not the norm. Even hedge funds, which have an "activist" image because of their short horizons, in fact seldom act in this way; 99 per cent of them are actually "passive", in the sense of being non-confrontational and non-activist.

Moreover, and even though many regard it almost as an absolute truth, shareholder influence should not be regarded as synonymous with short-termism. In fact, it is often management that adopts short-term measures in an effort to keep shareholders at bay. Particularly when managers themselves are under fire, such behavior is observed. By the way, it is not surprising that financial markets will not readily allow for long term strategies in case of weak management. Financial markets, including the analysts and shareholders, rightfully expect such strategies to be wasteful. What this means is that confidence in management is a prerequisite for acquiescence with such a policy.

None of this means that the debate around maximizing shareholder value as objective versus objectives based more upon a stakeholder approach is over. The financial crisis has clearly increased mistrust of financial markets and the shareholder orientation in general. After years out of vogue, the stakeholder-oriented Rhineland model is suddenly being discussed again. That said, surveys discussed in this study (although conducted prior to the credit crisis) reveal that the Netherlands sits firmly in the "Anglo-Saxon" camp alongside the US and UK, with more widespread support for shareholder value maximization as a significant corporate objective, quite contrary to countries such as Germany and France. Perhaps surprisingly, though, nowhere does maximizing shareholder value top the poll of corporate objectives. Not even in the US, where company directors actually rate "ensuring reliable growth and stability for all stakeholders" as their most important objective. This reflects recent research, which has found that stakeholder and shareholder orientations are often not at odds with one another. Taken together with the sharper focus upon shareholders now being observed within the European stakeholder spectrum, this finding shows that international differences in corporate orientation may actually have diminished.

From a European perspective, and certainly from a Dutch one, management orientation has clearly shifted towards the shareholder. As a consequence control and remuneration instruments have become prevalent that are derived from that orientation. Tools like EVA (Economic Value Added) and Value Based Management are just a few examples. This greater clarity generated by focusing upon shareholders has tackled inefficiencies. This is a positive development. Nevertheless, this study highlights a number of outstanding matters of concern which show that the right balance has certainly not been found yet. The most important of these are as follows.

1. More dominant, momentum-driven financial markets induce greater volatility and instability within firms. This makes maintaining a particular strategy more complicated.
2. The outside-in perspective of investors – and management tools that build on this – force a sharp delineation and segmentation of individual activities in order to enable stricter transparency and accountability. This development can improve efficiency but comes at a cost: it threatens to undermine both the

synergy of organizations and their social fabric, which in turn increases the propensity for transactions.

3. These developments make it difficult for organizations to derive sufficient benefit from key intangible assets like innovation, human capital and corporate culture. As a consequence, it may reduce their propensity to invest in such items. In any case, an excessive transaction focus is at odds with the preservation of intangible assets.
4. In this interplay of forces, management appears to lose autonomy. Given that more innovative and visionary strategies rely upon a stronger mandate, there is a danger that the value creation potential will be reduced.
5. The greater proliferation of financial markets and its emphasis on transparency – and especially management's response to market pressures – results in policies more focused upon the short term.
6. Management might feel trapped – if not sandwiched – by the interplay between organizational and financial market demands. As an agent of financial markets, management becomes like a "mercenary" hired on a temporary basis, with the concomitant high rate of executive turnover. This creates friction between its commitment to the organization on the one hand and to shareholders and financial markets on the other.
7. The above developments threaten to drag employees into a more contractual relationship with the company, challenging their loyalty and commitment to the organization.
8. Another concern is that a calculated self-interested – "What's in it for me?" – mentality might take hold. This begs the question of how to safeguard the added value to be derived from the greater whole: what makes the value of the organization more than the sum of that of the individual pieces? The greater instability makes maintaining a distinctive corporate culture increasingly complicated, while simultaneously its importance as a binding factor is growing because employees' more tangible links with the organization have become weaker.
9. Private equity can enable a more stable long-term strategy, but our understanding of its influences within companies remains limited. What is known is that it has a mixed effect upon employment: existing employment comes under pressure, but at the same time new, so-called "greenfield" job opportunities are created.
10. A potential disadvantage is that the strong financial incentives associated with private equity could undermine the social fabric, which in turn can reinforce calculated self-interest and erode collaboration within the organization.

The final section, "Lessons for management" contains a number of recommendations for senior managers.

Summary of the chapters

Chapter 1
The importance of an economic perspective

This book looks at corporations from an economic point of view. The first chapter provides a justification for this approach, briefly discussing the importance of an economic perspective and the role that economists can play in guiding and analyzing businesses. What makes this economic perspective so useful? And is the firm not more than a playground for economists?

Chapter 2
The dominant role of financial markets and corporate finance

The book's core theme is the interaction between financial markets and the functioning of corporations. The importance attached to financial markets and the investor perspective is to a large extent a product of the attention they attract. Those markets (and share prices) are highly visible and hence have become almost an exclusive measure of a company's success. Moreover, it is a process which has become self-perpetuating: the more attention financial markets receive, the more complicated it becomes to ignore them. And yet, when it comes to a firm's funding, financial markets play only a modest role. Internal financing is by far the most important source of funding, followed by bank financing; financial markets trail in third place.

Because of the dominance of financial markets, the corporate finance perspective has gained in significance. And it is most definitely an external one: the situation as seen by investors, by analysts and by the media.

How does that relate to the objective of corporations? Conceptually, under many circumstances the shareholder perspective is reconcilable with a broader stakeholder orientation. But there is a great discrepancy here between theory and practice. A focus upon the share price could invite behavior that seeks to "manage" that share price. Actions that enhance current cash flow, even when detrimental to less tangible future cash flows, may look very attractive. Decisions driven by short-term considerations thus become more likely. Another

example is the issuance of profit forecasts. This has in the recent past led to corporate behavior being driven by quarterly results – a situation which lends itself to shortsightness. And that might become even more acute when personal rewards are linked to share prices. But key in these examples is that conceptually little is wrong with the share holder perspective, yet due to information problems "gaming" – and sometimes even downright manipulation – might become dominant.

We can expect further turbulence to come. The prevalence of the corporate finance doctrine within organizations induces corporations to organize themselves into separately accountable units. To make its units as individually accountable and transparent as possible, the business can be even forced to sever the synergies between them. On the one hand, the accountability (and transparency that goes with it) can be good for efficiency. On the other hand, however, the demarcation and segmentation can eat into the social fabric and together with the loss of synergies be value destroying. Enterprises effectively become divisible, and hence less sustainable. A transaction focus may then threaten to dominate. That is perhaps the most important lesson to be drawn from this chapter: the game played by the financial markets and investors is by itself already transaction-focused but management reinforces this by organizing their business in a divisible fashion.

Chapter 3
The optimal structure for business activities

This chapter builds on organizational theory. What turns enterprises into organizations is the fact that they involve a network of people working together. Conducting business is a cooperative effort, which differs fundamentally from market transactions. Co-operation requires co-ordination, and the costs which go with it, and they are decisive in determining the optimum size of the business.

A company prospers on intangible assets like people, their knowledge and readiness to share that knowledge and, more generally, their willingness to work together. Other intangible assets include the ability to innovate, to apply new concepts and to create new knowledge. And playing an important role throughout all this is yet another intangible asset: the corporate culture.

When considering the importance of intangible assets, it becomes clear that the transaction (and segmentation) focus of corporate finance could be too extreme. Intangible assets are intimately associated with synergies: it is through synergies that intangibles are often most emphatically expressed, whilst the combination of the two is what determines an organization's added value. As already observed, however, corporate finance thinking is often directly at odds with the effective exploitation of synergies. In that conceptual universe, diver-

sification of business activities is little short of an obscenity. What this chapter shows is that a less clear-cut view of things is needed. Related diversification is important, not least to allow intangible assets to prosper.

This also explains why excessive transaction-based thinking is so damaging. Transactions are almost automatically at odds with intangible assets. Existing connections are broken or different units, each with its own culture, are fused together (as in M&A). And when that happens, intangible assets often suffer. Obviously, this does not mean that transactions are bad by definition. Caused in part by developments in information technology, there is an underlying and impossible to ignore dynamic within society which has resulted in a more intensive succession of changes, and hence also in more transactions. But what we do need is to bring the excessive dynamism rooted in capricious financial markets under control.

Chapter 4
Finance as barrier: the importance of mandate

The transactional perspective of corporate finance encourages business to put external growth, by means of acquisitions, before organic growth. Often this is driven by consultants who pressure firms to respond to a lacking share price by engaging in acquisitions. The share price becomes an input of corporate policy rather than – what it really is – an outcome. Frequent shifts in policy and instability then become reality. What this means is that company policy becomes inextricably linked to the fickleness of financial markets.

As a consequence, the enterprise is in danger of losing its power of self-determination. Crucial here is the management mandate. Without a mandate, the capriciousness of the financial markets dominates. Even more fundamentally, however, this chapter argues that more innovative and entrepreneurial decisions require elbow room, and hence a mandate. If this is lacking, a more short-term policy horizon looms.

From the surveys reported in this chapter, it is apparent that (even!) American managers rate the objective "ensuring reliable growth and stability for all stakeholders" higher than maximizing value for shareholders. The right conclusion here is that managing for "reliable growth and stability" is essential to achieve shareholder value.

Chapter 5
To float or not to float? Activist shareholders and the choice between private and public equity

By comparison with their counterparts elsewhere, listed companies in The Netherlands are under greater pressure from the financial markets. To some extent, this is a transitional issue: for a long time, such firms were relatively sheltered, with shareholders kept at considerable distance by powerful legal protective

mechanisms. More recently, however, pressures have increased, and some turmoil is observed. The chapter concludes that corporate management – particularly supervisory boards – was not properly prepared for this development. As Dutch management learns from experience, though, this situation will doubtlessly correct itself, at least in part.

When it comes to activist shareholders, some sense of perspective is required. They are actually a rare phenomenon. The perceived pressure emanating from the financial markets is only rarely a manifestation of genuine shareholder activism. Yet the need for such activism is a symptom of the weaknesses in the public listing model. Under normal circumstances, the spread of share ownership and the associated "free rider" problem undermine the discipline that shareholders can impose on management.

Yet a greater stability and concentration in ownership structures is desirable to strengthen the public listing model. This should allow a more harmonious and interactive relationship with shareholders. On the one hand, this can be achieved "on the exchange" by combining the free float – the "loose" shares which are traded on a regular basis – with a number of established minority shareholders. On the other hand, it can be brought about "off the exchange" by introducing a new "private" model based upon finance through minority holdings. These solutions would enable a more continuous – and more disciplined – shareholder dialogue. In addition, reinforcement is required at the supervisory board level. That body should move closer to the business, becoming far more intensively involved in its activities.

Private equity investors represent an alternative "non-listed" model featuring more permanent shareholders. Although it offers stability, this option also has its drawbacks. The one-sided financial incentives tend to create a focus upon the short term, possibly with little or even insufficient consideration of intangible assets. Moreover, this model remains a "temporary" one, rarely intended to last for a period of more than five years. As such, it is not a fully fledged alternative.

Chapter 6
Internal organization: culture, commitment and co-operation

Critical aspects for the effective internal functioning of an enterprise are how it copes with

1. more frequent transactions; and,
2. the increasing focus by senior management on the financial markets – and the accompanying "circus" of analysts, consultants, media and so on.

The greater impact of momentum-driven financial markets on a company is bound to reduce its internal stability. And the greater propensity for transactions associated with this development puts intangible assets at risk, including the social fabric. More calculated self-interested behavior – "What's in it for

me?" – is therefore to be expected. At the same time, there is a risk of the CEO acting more like a temporary "mercenary" than a manager with unquestionable organizational commitment. As a transient figure trying to impress financial markets, he may well have become detached from the organization he is supposed to be leading. It is then the capriciousness of the financial markets which determines his position. Much like the trainer of a top football club, he either has momentum, or has not. It is everything or nothing, with a correspondingly high rate of turnover at the top of the enterprise. This could result in a kind of alienation from the organization, with an impact upon the social fabric which defines the organization.

Consequently, the commitment of employees to the business and their unwritten "psychological contract" with the organization may come under pressure. In all too many cases, the combination of transaction focus and alienation of topmanagement irrevocably damages those contracts and lead to a breakdown in the mutual expectations on the part of employer and employee alike. This induces even more calculated self-interest on the part of the workforce, which in turn can cause even greater alienation.

These risks beg the question as to how the added value provided by the "greater whole" can be safeguarded. Now more than ever, a strong corporate culture is needed in order to reinforce the organization's internal social fabric. At the same time, however, that culture itself is under huge pressure. It is being eaten away by both the tendency towards transactions and calculated self-interest. The key challenge facing enterprises, therefore, is to bring new form and substance to their corporate culture. There is an increasing need for more innovative ways of working, such as empowerment and new kinds of co-operation, for measures to encourage personal development and for strategies that will enhance employees' identification with the organization.

More stability in the ownership structure can play a part in this process. Private equity (see chapter 5) can help to bring about a more stable long-term strategy, but in itself it is only a temporary model. However, our understanding of the impact private equity exerts over businesses remains limited. We know it has a mixed effect upon employment: the existing employment often comes under pressure, but at the same time new, so-called "greenfield" opportunities are created. In particular, the strong financial incentives associated with private equity can undermine consideration for the social fabric of the organization, which in turn may encourage more calculated self-interest.

Lessons for management

The uprooting of firms – footloose corporations – is a reinforcing process. The financial market perspective tends to result in excessive volatility and instability within firms, which damage the social fabric. Companies have accentuated this by giving in to the pressures from those same financial markets. They are tempted to organize themselves in such a way that they become divisible; instead of striving for internal synergies, they have created separate, easily accountable units. And yes, that further erodes the social fabric and so leads to even more transactions, which in turn continue to fuel the process of decomposition. And so a kind of vicious circle forms.

At the same time, such a process can be seen affecting the behavior of both senior management and employees. As soon as the CEO lets his position be dictated by the fickleness of the financial markets, he becomes like a (temporary) mercenary of the financial market. He either has momentum or he does not. It is all or nothing, with the concomitant increase in the turnover of senior executives. This results in the boardroom's effective alienation from the rest of the organization, undoubtedly accompanied by numerous transactions, and again it is the social fabric of the organization which suffers. All those transactions, plus the alienation – whether real or only perceived – of those supposed to be running the company, encourages the rest of the workforce to give in to calculating self-interest. "What's in it for me?" they ask themselves. Their ties to the organization more or less collapse to solely their financial remuneration contract. Self-serving behavior then becomes the norm. For instance, they start to overly invest in developing marketable skills – those of use to any employer – rather than abilities specific to the company itself. And so another vicious circle is created.

The key challenge facing businesses is to recognize these self-reinforcing processes and to counter those effectively. Leadership requires vision, and it is essential that management creates elbow room to maneuver. A mandate is key. The reality is that management can claim this mandate. For shareholders, notwithstanding everything that has been said, it is very difficult to intervene. It is management's own fixation with highly visible share prices and with the circus of analysts and consultants which underlies its capitulation to the financial markets.

To prevent this, here are some recommendations to senior managers for improvement.

1. A simple one. Almost too obvious, but so important. Steer your own course, based upon your own vision and clearly defined goals. Operate from the perspective of the business itself. What value does it add? What determines its added value as a cooperative undertaking? Define its intangible assets. This requires that you identify genuine potential synergies and revitalize the corporate culture. The latter could translate into more innovative ways of working, such as empowerment and new kinds of co-operation, into measures to encourage personal development and into strategies that enhance employees' identification with the organization.

2. Use consultants, analysts, investment bankers and the like only for what they are good at. Remember that they reflect the fickleness and herd instinct of the financial markets. Running a business on that basis is undesirable, but they can be useful as trendwatchers and as a valuable source of information about developments in your industry. In that capacity, they certainly have informative value. And, of course, there is nothing wrong with making use of them as valuable informed "opposition" of your own creation (see also recommendation 5). The point is that you use them to keep yourself focused and to force yourself to critically examine your own strategy and choices. But never should they become a substitute to having a vision of your own.

3. Make yourself accountable, but avoid the game of issuing profit forecasts. It usually means being forced to run the business in such a way that it meets the announced expectations on a quarterly basis, with or without the aid of accounting tricks. True businesses do not have such one-dimensional predictability. Of course management should make sure that it "delivers", but choose a more informative way. Set realistic goals. Make your performance accountable. Show how you are "scoring". Think what it really means if "the market is disappointed" for a while. Realize that the adage "deliver in the short term, otherwise there will be no room for maneuver in the long term" is not the same as running the company solely to hit profit expectations on a quarterly basis.

4. Seek shareholder stability. Even for listed companies, this is important. Having more permanent shareholders improves your ability to communicate and also provides some protection against the volatility of the financial markets. A more concentrated shareholder structure therefore is often desirable.

5. Keep yourself focused by creating an "opposition" of your own choosing (see recommendation 2). Shareholders should be part of this – after all, they are an important stakeholder. And bear in mind that communication is two-way traffic: you can learn from your shareholders, too. So regarding them as "cli-

ents" can add value. In short, the company should create its own checks and balances.

6. It is a critical task of a supervisory board to maintain the "tone at the top", and hence to ensure that top-management balances the demands from financial markets. That tone is hugely important to the organization's social fabric: the forces which bind it together. A fabric that is undermined when senior executives are perceived as transient mercenaries, which certainly happens when they are seen to focus only upon transactions and the financial markets. The supervisory board has an important role to play in striking the right balance.

7. As senior management, be part of the organization you are running. Hands-on, in other words. Only then do you avoid becoming alienated from the organization and regarded as nothing but a puppet of the financial market. To act solely as a kind of portfolio manager at corporate level is far too narrow a definition of your role. It would result in isolation from the organization and in a perceived excessive transaction focus that will threaten the organization's social fabric.

8. Recognize what the corporate finance doctrine is good for: achieving, or helping to achieve, the optimal allocation of capital within the enterprise. It is not as a substitute for leadership, nor does it make a good remuneration or organizational tool.

9. And (tongue in cheek): however fashionable it might be to show the company's real-time share price performance prominently in the reception area at head office, think very carefully about this kind of display. Would it not be more informative and less short-termist to have a graph showing how the share price has evolved over the past ten years? And if you really want to be informative, why not add a graph of the market's overall development during the same period?

That is all?

So that's it? No, definitely not. The above represents only a first step towards rectifying the madness which has afflicted so many businesses. A financial market driven madness, largely self-inflicted, but none the less. I do have the feeling that the tables are starting to turn a little. More and more company directors are asking themselves, with some astonishment, how they could have allowed themselves to be so heavily influenced by the financial markets and by all those market-driven analysts, consultants and whatever.

Are my recommendations sufficient? No, more is undoubtedly needed. But what? We cannot do without financial markets and active (as distinct from acti-

vist) shareholders. Anyone wanting to restrict shareholders' rights really needs to think twice. Checks and balances on corporate management are essential, but how can they be guaranteed if shareholders are not allowed to play a role? A return to the all-powerful and paternalistic supervisory board is definitely not something any of us should want. Although this book does call in passing for the supervisory board to be strengthened (see also recommendation 6), the supervisory board will never be able to do everything alone. What is needed is a new equilibrium, although finding it will certainly be a slow learning process. I have every hope that we will get there in the end. But just as with global warming it may take some time before we reach the melting point.

I trust that this book has set you thinking. There are no clear-cut answers, however much I would have liked to have provided them. All I can offer you is an initial analysis, plus some lessons and guidelines. I would like to thank the Management Studies Foundation for asking me to put together my thoughts on this important subject. Particular gratitude goes to the advisory committee for always being willing to provide constructive criticism and suggestions as my thoughts on the matter unfolded.