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# Shareholder Value for Whom? For What?

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The misbehavior of business executives in high places has unleashed such a deluge of condemnation and outrage that one can fairly ask whether anything remains to be said. Something does remain to be said.

It is not enough to condemn those who in one way or another stole from their companies, their employees, their clients, and the investing public, although such condemnation is richly deserved. An even deeper betrayal is involved. The magnificent achievements of the American economy from the end of 1978 to the mid-1990s have been besmirched by the greed of malefactors who spat upon the altar of maximizing shareholder value. Many of the accomplishments of the past 20 years are now in danger of being discarded or distorted beyond recognition.

I begin with a few words of history. Only part of the sorrows of the 1970s were manufactured in Washington. Arrogant and short-sighted business managements, whose dominant objective was the safety and preservation of their own skins, bear a large share of the responsibility for the single-digit P/Es and double-digit interest rates. Their defensive mind-set penalized innovation and enterprise on a wide scale, while European and Japanese economies were ravaging our international competitiveness.

After 1979, the American economy underwent a true revolution. Paul Volcker's bold attack on inflation fostered an environment that rewarded risk-taking and penalized defensive corporate management. Michael Jensen of the Harvard Business School laid out a theoretical battle plan for radically redefining corporate objectives. T. Boone Pickens first lit the fires in the boardroom, leading the way for an army of takeover artists who ejected stodgy managements and put profitability at the top of their agenda, and Michael Milken remodeled the capital markets as a source of finance for venturesome companies.

Behind these bold pathfinders, managers took up the challenge of producing earnings that would finally compensate shareholders for taking the risks of equity ownership. These four men, seeking the best ways to compensate shareholders for taking the risks of equity ownership, advanced the moment when American business stopped running in reverse and began to transform the United States once again into the world's most vigorous economic leader. Despite the undeniable harshness implied in the new rulebook, people around the world regained their respect for what capitalism on the march can accomplish, and what free markets can achieve.

All of this was wonderful in many ways. Although no economic road is ever smooth, and all economic roads take unexpected turns, the good news kept dominating the bad. Yes, capitalism is heartless as well as disinflationary. Globalization—the natural extension of the profound alterations in the U.S. economy—is in particular a mixed blessing, magnificent in what it promises but with a dark side that cannot be denied.

Yet despite isolated protests, the system flourished. Democrats and Labor governments signed on. Developing economies emulated the capitalist nations, while the American model shaped the economic transformation of the former socialist countries. Indeed, the Chinese decided there was something to it.

In the end, however, it is the managers themselves, not the exploited masses, who did in the era of rejuvenated capitalism, taking aim at the very heart of the system by gobbling it up to satisfy their own cupidity. When the gross greed at the top displaced the shareholders as Number One, the foundation of the whole structure caved in.

And now the piper must be paid by all of us, not just by those who have been dethroned. The heavy hand of government looms once more on the horizon. Protectionism threatens. The zest for decision-making and risk-taking has been suppressed. The powerfully positive environment has been lost and will not be recovered soon.