**MGT 462**: Book Club Facilitation Survey for Facilitators

Your Name \_\_\_\_\_\_Phil Gorman\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Book Title \_\_\_\_\_\_\_23 Things They Don’t Tell You About Capitalism\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Chapter Number and Title of Chapter\_\_Thing 2: Companies Should Not be Run in the Interest of their Owners\_

Date of Presentation \_\_\_February 4, 2020\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Book Club Facilitators’ Names: \_\_\_ Greta Thunberg, Exxon, U.S. EPA, Phil Gorman\_\_\_\_

What were the key themes of the chapter?

*Theme 1*

We (the public) are taught that a business is in business to make money for the shareholders. Furthermore we are (mostly) taught that when shareholders profit, the company has maximized its social contribution.

*Theme 2*

Shareholders are “mobile.” In other words, they can exit from the company faster than other stakeholders such as employees, suppliers, buyers, and the community at large.

*Theme 3*

Shareholders (supposedly) are interested mainly in short-term profits.

Do you personally believe what was written in the chapter?

*Theme 1*

About 30% yes.

A profit-seeking company does indeed need to turn a profit in order to stay in business over the long term. However, it is important to note that any person who relies on a business—employees, suppliers, buyers, and the local community—effectively allow the company to exist. If the company does not treat its stakeholders well, then its stakeholders may stop supporting the business. For example, many local businesses sponsor Little League baseball simply *because* their employees or customers have an interest in a particular team.

The managers of the company do have flexibility to sacrifice short-term profits to re-invest in employees (e.g., training), maintaining customer relationships, and investing in relationships with the community.

We believe that an organization that does not maintain relationships with stakeholders other than shareholders will cause shareholders to suffer in the long term. Full-time employees for example will spend about *half* of their waking hours doing work for the organization; an employer is part of the social fabric that employees, customers, buyers, and the local community rely on.

*Theme 2*

Mostly not. Shareholders in large companies are mostly mobile, as there is a market that includes willing buyers. However, shareholders in closely-held companies often are not mobile, as there often is no reasonably efficient market for shares in a closely-held company.

Other stakeholders also are mobile. For example, employees can quit their job on a moment’s notice if they choose to do so. Customers also can quit dealing with a company, though—with cell phone contracts as an example—there may be a relatively mild penalty for doing so. Suppliers also can quit dealing with a company, though again there may be contracts that might prevent them from doing so on a moment’s notice.

*Theme 3*

No. Some shareholders probably are looking for short-term gains. However, the world is full of individuals who built a company, or bought a company, or bought shares in a company, and held on for the long term.

For example, Microsoft was founded in 1975. As of today, Bill Gates (one of the two co-founders) is still a shareholder in Microsoft (37 years after the company’s founding) and is currently listed as the richest person in America at $66 billion. Bill Gates was not interested in short-term profits. Paul Allen, the other co-founder of Microsoft, resigned from the company in 2001 after being diagnosed with Hodgkin’s disease. He is still a very wealthy man who owns the Portland Trailblazers of the National Basketball Association, and who owns many businesses including Charter communications (my own local cable company).

Another example: Wal-Mart was founded in 1969. Today, four of the top ten richest people in America are named Walton, as in “Wal-Mart.” They still own shares. They were in it for the long term - 43 years and counting at this point.

How will the contents of this chapter affect your own decision-making as a manager in your career?

*Theme 1*

A profit-seeking business, or a non-profit organization, or a government, is not simply about turning a profit year after year. Governments face budgetary constraints that limit what the government can do. Still, governments find a way to maintain “unprofitable” things like the local parks, with the profits showing up only in the citizens’ happiness about being able to go the local park for free.

At the other extreme, a profit-seeking business can legitimately say “anyone who does not want to be employed here can choose to work elsewhere” in order to turn the maximum financial profit.

We would go somewhere in the middle, respecting the fact that many employees view the employer as part of the family; we would sacrifice some short-term profits in order to build that family. In the end, we believe that approach would in fact maximize profits over the long-term.

*Theme 2*

There is not a lot we can do here. In a publicly-traded company, shareholders are indeed highly mobile. However, other stakeholder groups also are mobile. We would first try to build strong relationships with employees, suppliers, buyers, and the local community even if it reduces short-term profits.

*Theme 3*

Not at all. If some shareholders want short-term profits, they can choose to invest in my business or not. If other shareholders are willing to wait for the large payoff, they also can choose to invest in my business or not. However, if we were to have a relatively new business or if starting a business, then we will need to be willing negotiate terms of the investment with potential start-up investors.

Have the contents of the chapter changed your view of how businesses and governments operate?

*Theme 1*

No. In the United States, a CEO has the right under the “business judgment rule” to invest dollars into giving back to the community, as long as there is some sound reasoning leading to a conclusion that keeping stakeholders satisfied will ultimately increase shareholder wealth. As a manager, I will sleep better at night if we are both (a) turning a profit and (b) investing in our relationships with stakeholders for the long haul.

*Theme 2*

No. Shareholders do what they want, except for the isolated instances in which some shareholders are locked in for a period of time (e.g., stock-option grants, or venture capital).

*Theme 3*

No. Some shareholders probably are seeking short-term gains. But a lot of shares are held by large institutional investors, who have an interest in showing a track record over time. I, for example, own shares in mutual funds which I could sell at any time. However, I do not even pay attention to which companies are part of the portfolio; I pay attention to the longer-term performance of the fund.

Questions

1. Do you even know what companies you own shares in?
2. Which is more important: satisfying the various stakeholder groups, or maximizing short-term profits? Why?
3. Should there be a “holding period” for all shareholders that requires that anyone who purchase share should be required by law to hold those shares for, say, 3 or 6 months?
4. Is “shareholder value” a good guiding principle for making decisions? (A manager needs some guiding principle for making strategic choices; otherwise he/she has no guidance; what is a better guiding principle?)
5. If shareholders are indeed greedy, why would they *not* hold on to shares for the long term provided that they did their research to determine that this company would be profitable for the longer term?
6. Don’t financial markets already account for any fluctuations in profits?