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Maximizing Shareholder Value: What Are Shareholders' Interests?

Reference:

Gordon, Roger. [*Do Publicly Traded Corporations Act in the Public Interest?*](#) Advances in Economic Analysis and Policy, 2003.

This article provides the theoretical underpinnings for re-examining the interests of shareholders. In characterizing the firm's objective, we assume shareholders unanimously want firms and managers to maximize share price. Because many shareholders hold diversified portfolios, they take into account all externalities that a firm's action might have for the overall industry and economy, not just for the profits of the individual firm.

Cases:

Hall, Brian, Rakesh Khurana and Carleen Madigan. [*Al Dunlap at Sunbeam*](#). Harvard Business School Publishing, 1999.

This case engages the debate about multiple stakeholders versus shareholder primacy. The question from the Featured Collection, of how a category killer can hurt the portfolio performance of diversified shareholders, can be added to the discussion of this case. Boards used to represent concentrated shareholders, in which case the actions of Al Dunlap would have benefited shareholders. The landscape looks different than it did in the 1970s, now that many investors have heeded the advice to diversify their risk. This case also considers executive compensation. Drawing upon the Gordon article, the additional question can be raised: What if CEOs received compensation for *industry-enhancing* performance?

Palepu, Krishna G. and Jonathan Barnett. [*Hewlett-Packard-Compaq: The Merger Decision*](#). Harvard Business School Publishing, 2004.

Additional discussion of shareholder interests can be added to this case. Consider three groups of investors: 1. Mr Hewlett. (heir of co-founder), 2. Undiversified individual shareholders (perhaps inherited stock from family), 3. Institutional investors (mutual funds, pension plans), which represent 55%. How should mutual fund managers think about voting their shares? Based on the likely profitability of HP after the merger? Or based on the total value of the portfolio? Individual investors might consider the former, mutual fund managers the latter. Consolidation may be good for the PC industry, even as it reduces competitiveness in the medium term.

Additional references from the business press:

Lim, Paul J. [*Can't Find a Sure Bet? It May Be Time to Spread the Risk*](#). The New York Times. September 4, 2005.

This article indicates that present market conditions favor diversified over concentrated investment strategies.

Morgenson, Gretchen. [*What Are Mergers Good For?*](#) The New York Times. June 5, 2005.

This article reviews past cases and academic research to address the question of whether mergers provide lasting value for shareholders after the initial boost in share price.

Commentary

Mary C. Gentile and Maureen A. Scully. *Corporate Governance and Accountability: [*What Do We Know and What Do We Teach Future Business Leaders?*](#)*, 2004.

This Commentary piece situates the question of defining shareholder interests within a series of reflections from faculty members on the limits of the maximize shareholder value (MSV) model.