Global Counsel

Price and value: how best to measure a company's performance?

Blog post by Practice Lead Adam Terry, 10 June 2019

In his 2018 letter to CEOs, Blackrock's Larry Fink set some serious hares running in his insistence on the related concepts of "purpose" and "profit". While a company's purpose is irrelevant if it is not profitable, he argues, the former must always drive the latter: "purpose is not the sole pursuit of profits but the animating force for achieving them". These sorts of assertion only get us – and the policymakers taking an increasing interest in this theme - so far.

Fink is surely right that there is a problem with a system of company ownership that has a strong bias against patient ownership, or an inability to take a longer view of firm strategy or motivation. Making his proposed cultural shift real obviously relies on meaningful new frameworks for considering company strategy. Leaders of many firms regularly state that they are embedding concepts of environmental sustainability or social responsibility into their business models but in reality, these practices vary considerably, from genuine cultural change to mere "greenwashing".

It is inevitable that investors (and policymakers) will seek ways to compare and price these moves and the frameworks that surround them; the Financial Stability Board warned last week that firms are not disclosing enough climate-related information, for instance, to allow for informed investment decisions. As well as increasing transparency, that means asking how you make these commitments measurable.

We have a wide range of established metrics for short-term company performance and long-term company potential. How do you similarly measure a firm's societal impacts, or the contribution it makes to decarbonisation? In the EU, policymakers are seeking to address this challenge by embedding metrics into legislation: developing a taxonomy to define what counts as environmentally harmful or beneficial activities. The proposal is making slow progress through the legislative machine, showing that it can be hard to create new measures of corporate success beyond the headline commitment to do something new. Arguably, though, the end result could be genuinely transformative for finding new ways of thinking about value beyond that are broader than just returns to shareholders.

One important dimension of this debate is the narrowing part of the company ownership landscape that it is addressing. The number of public companies in the UK is actually falling: there were fewer than 1,900 listed businesses in the UK in 2014, down from nearly 2,500 at the start of the century and well below the 2006 peak of almost 3,000. In theory, the large number of firms outside of public ownership are a laboratory for healthy approaches to long termism or careful value creation – but in practice this will often depend on the approaches of a very diverse group of owners, from families to private equity firms.

Everybody knows Oscar Wilde's definition of a cynic: "a man who knows the price of everything, and the value of nothing". Less well-known is how he defines a sentimentalist: "a man who sees an absurd value in everything and doesn't know the market price of any single thing". For investors and the policymakers who will be responding to their call for new metrics of company strategy the challenge is the balance between cynic and sentimentalist.