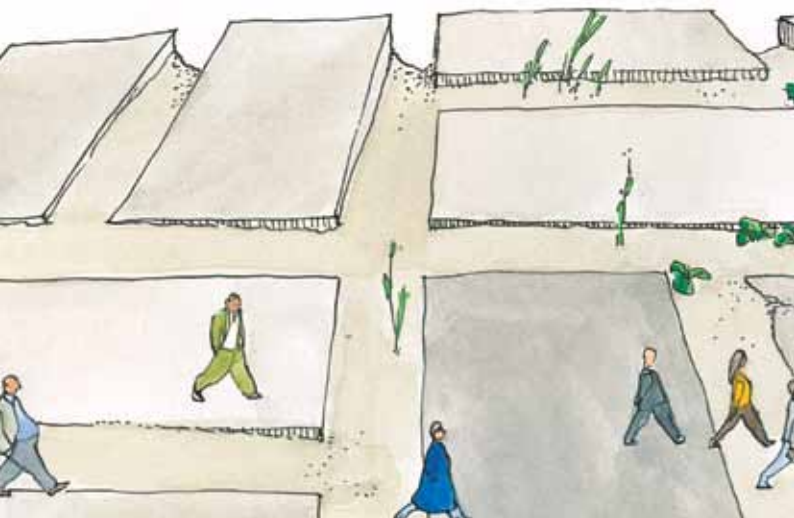


The European Enterprise Value creation for society

by Donald Kalff



*“Europe’s Liberal Democracies
deserve European Enterprises”*

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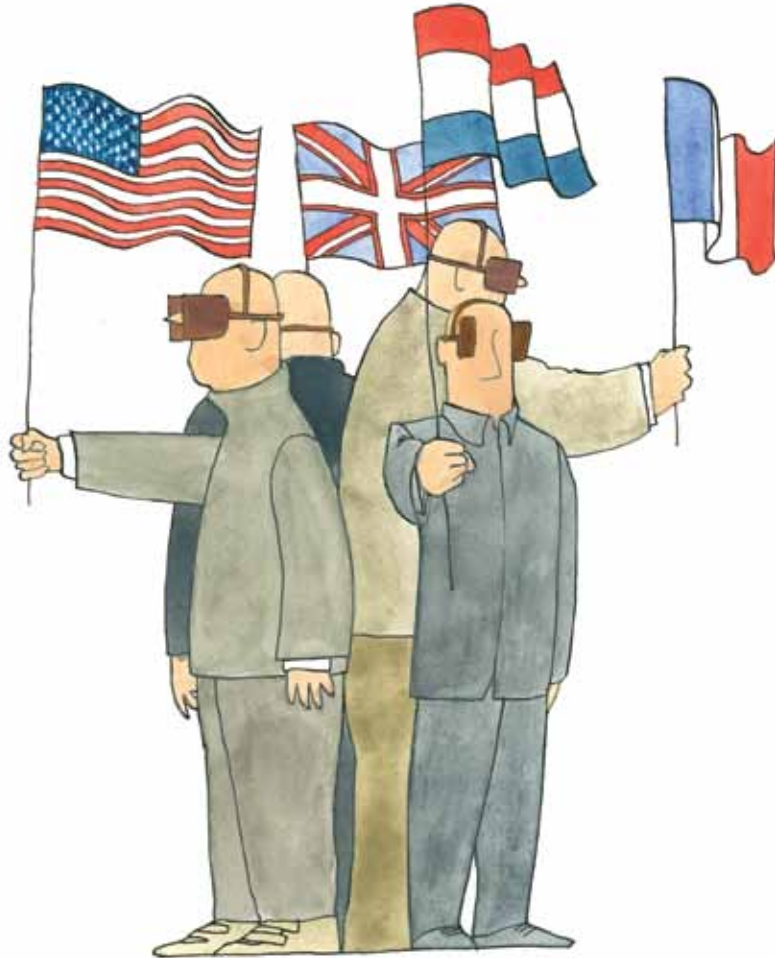
Table of Contents

- I. Liberal Democracies under pressure • 7
- II. Exploring a different direction • 16
- III. How value is destroyed and built • 24
- IV. Affecting change • 34
- V. The European Enterprise in context • 45



I • Liberal Democracies under pressure

Liberal Democracies are challenged
whilst coping with legacy problems and
facing the need for structural change



A world adrift

Geopolitical turmoil

Paralyzed political decision-making

Failing institutions and institution building

The demise of the middle class

Youth unemployment

The growth of minorities

...causing the rise of ethnic nationalism

The need for economic growth

To remedy global imbalances

To create a buffer to cope with new sources of instability

To finance investments in infrastructure, the environment and the energy transition

To create employment

To reduce inequality

...helping to restore the torn social fabric



Stimulation of economic growth is becoming ineffective

Central banks have reached the end of the road

Proposals for structural change are meeting increased resistance

Fiscal stimulus is constrained by high government debt

Liberalization of world trade has reached its zenith

Instruments to stimulate innovation lack effectiveness

...whilst the risks associated with these interventions are increasing



No apparent way forward

Economists profoundly disagree about remedies

The world's economic institutions repeat their mantras

Companies have withdrawn from the public debate

Politicians are at a loss

Citizens are confused and angry

...producing a harmful impasse



II • Exploring a different direction

An, up till now unexplored, explanation for the lack of growth is value destruction and insufficient value creation by large listed companies. Policies aiming to serve shareholders and stakeholders cause both directly and indirectly considerable macro-economic and social damage.

A turnaround will bring highly significant benefits.



Large enterprises fulfill an indispensable role

Providing economies of scale

Driving world trade

Contributing to R&D

Bringing innovations to market

Investing in large, high risk projects

Selecting and developing talent

Providing employment, directly and, in particular, indirectly

Poor performance of large listed companies

Growth of investment lackluster

Return on investment shrinking

Export growth decreasing

Productivity growth sharply declining

Share of new products in total revenues stagnating

Scandals revealing structural shortcomings in governance and management

...whilst historically high margin and profit growth is not sustainable





Under extraordinarily favorable circumstances

ICT revolution served outsourcing, market access and marketing

Increased pricing power due to industry consolidation

A low and decreasing effective tax rate

Unprecedented low inflation and lowest cost of capital ever

A de facto freezing of wages

Highly effective lobbying in defense of established (market) positions

Large incentives provided by competing cities, regions and countries

III • How value is destroyed and built

Value destruction and lack of value creation by large listed companies are not caused by adverse market conditions, but by a number of fundamental choices that shape corporate governance and management.

Flaws in the shareholder model

- Serves financial markets not the economy
- Emphasis is on control and transfer of risk
- Artificial investment hurdles
- Harmful commercial doctrines
- Suppression of innovation
- Inadequate governance and management
- Counterproductive organizational design and culture



Flaws in the stakeholder model

Serving organised interests at the expense of the development of the enterprise

Steering clear of risk, avoid conflicts

Stakeholders exercise power without responsibility and accountability

Stakeholders defend established positions and depend on short term successes

Stakeholders constrain innovation

Inadequate governance and management

Counterproductive organizational design and culture



The European Enterprise model

Operating license provided by society at large

Focus on economic profit, not on accounting profit

Creation of economic value by innovation, by investments and by productivity growth

Facing the future and embracing risk

Retaining control of the Enterprise by diversifying sources of capital

Engagement in partnerships to optimize value creation

Entrepreneurship built into governance and management to exploit all other sources of economic value

The Enterprise as a working community



	Shareholder Model	Stakeholder Model	European Model
Source of legitimacy	Shareholder	Stakeholder	Society
Worldview	Financial	Political	Economic
Modus Operandi	Analytical	Continuity	Holistic
Overriding objective	Shareholder ROI	Eclectic	Creation of economic value
Steering Variable	Profit per share	Multiple	Free cash flow
Principle source of finance	Stock market	Banks	Diverse
Leadership	Individual	Committee	Dispersed
Culture	Individual competition	Competition between units	Cooperation
Management	By rule	By principle derived rules	By principle
Decision making	Procedure driven	Horses for courses	Quality driven
Control	Command & incentives	Formal commitments	Professional standards
Attitude to risk	Transfer and control	Steering clear	Facing uncertainty

IV • Affecting Change

The tide is turning as a number of advanced European Companies move away from the two established enterprise models, in the pursuit of enlightened self interest and the interest of citizens, shareholders, employees, taxpayers and pensioners.

This provides a major opportunity for governments, institutions and the enterprises themselves to regain ground in the battle for legitimacy, demonstrating the resilience of liberal democracies.

Existing listed companies are difficult to turn around

Conspiracy without conspirators, appealing and shared world view held by those in power

Financial markets impose and preserve the shareholder model

Existing reporting requirements, bookkeeping conventions and personnel policies

Finely tuned and connected functions and systems

Resistance to change, even by disheartened employees

... yet, advanced enterprises, many of them Nordic, show the way forward





What governments can do

Redirect fiscal and other facilities designed to boost profits to the stimulation of innovation, investments and productivity

Establish, and adhere to, long term policies to provide frameworks for investment

Stimulate R&D by providing and maintaining technical infrastructure

Stimulate innovation by regulation and by acting as launching customer

Control corporate lobbying geared to the defence of established positions

Help to prevent value destroying takeovers

Reposition research and education in business administration

What the institutions can do

Banks: evaluate clients and their plans on the basis of economic value added

Investors: focus on present and future return on assets and productivity growth

Regulators: protect small enterprises, suppliers, partners and customers of large companies, against abuse of power

Courts: protect the enterprise against shareholder and other special interests

Trade unions and workcouncils: engage in corporate policy making re innovation, investments and productivity





What new and growing enterprises can do

Follow advanced and successful enterprises that focus on value creation

Turn the articles of association into the constitution of the company and built in defenses against share- and stakeholders

Diversify the sources of capital to retain independence

Reduce organizational and financial risk by growing at a measured pace

Establish that all decision making bodies and all managers and employees put the corporate interests central stage

Adjust governance and management to different stages of enterprise development

Capitalize on major disruptions such as mergers, takeovers and bankruptcies to change course

V • The European Enterprise in context

The EU, after Brexit, is the natural home of the European Enterprise. It is well placed to take advantage of the many competitive advantages of the EU vis-a-vis other trade blocks.

At the same time the European Enterprise, with its emphasis on value creation, will contribute disproportionately to EU economic growth.

The EU advantages, both in terms of Economic and Soft Infrastructure, should provide the basis for a New European Innovation and Growth Agenda. Enforcing what is strong is far more efficient and effective than seeking remedies for what is weak.



Economic infrastructure

Very exposed to worldmarkets and therefore highly productive in its heartland

The largest consumer market in the world

A sizeable and advanced manufacturing base

Strong positions in the world's business to business markets

A sophisticated network of trade agreements

A superior patentsystem

Competition law and its enforcement the envy of the world

A large role of banks in financing the private sector

Considerable untapped potential in terms of the integration of markets for energy, ict, services and labor



Soft infrastructure

The memberstates and the EU serve the people and protect the common good

A long history of effective public private cooperation in a variety of fields

Availability of a range of corporate legal entities accomodating very different companies in various stages of development

Civil law serving the public and the business community

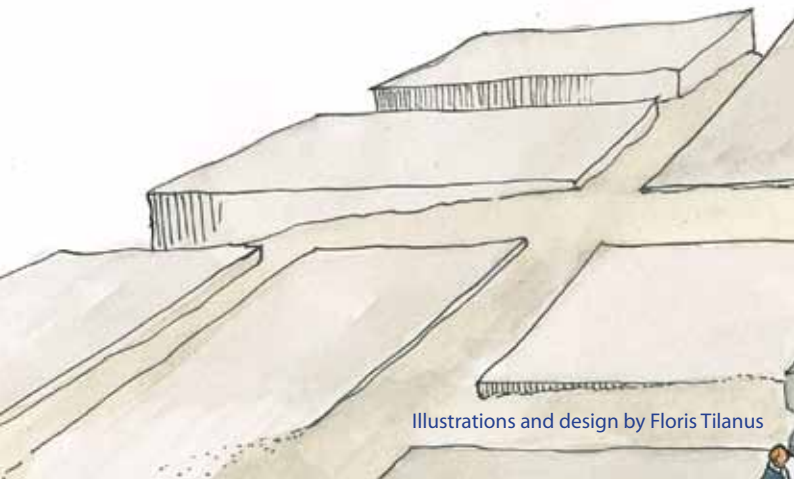
An unprecedented network of trade agreements

Mechanisms to cope with the social consequences of economic development already in place

About the author

After receiving his PhD degree from the Wharton School of the University of Pennsylvania Donald Kalff spent most of his professional life as a manager at Royal Dutch Shell and as a member of the Executive Board of KLM, Royal Dutch Airlines. During the last 15 years he has co-founded AIMM Therapeutics, a biotech company, and three other companies working the field of the diagnosis and treatment of tropical diseases. He is also the author of two books and numerous articles on the governance and management of large enterprises and on the competitiveness of Europe. His latest book: *The European Enterprise, value creation for society* will appear in the course of 2017.

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