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*Business Leaders: Thought and Action*

# Why Shareowner Value?

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# Why Shareowner Value?

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At The Coca-Cola Company, our publicly stated mission is to create value over time for the owners of our business. Of course, there are plenty of other missions upon which a company could focus: serving customers; pursuing philanthropy; providing the highest quality of products and services; creating jobs and job security.

But I would submit that in our political and economic system, the mission of *any* business is to create value for its owners. In the wake of huge layoffs at certain companies, this idea has been vilified by many critics, and doubt has arisen in the minds of many business leaders about their purpose. This is incredibly dangerous to the companies whose leaders doubt their purpose and to the society that those companies serve.

So why is creating shareowner value the right mission for our businesses?

There are three basic answers to this question:

- Increasing shareowner value over time is the job society demands of us.
- Increasing shareowner value enables us to contribute to society in meaningful ways.
- Focusing on creating value over *the long term* keeps us from acting *short-sighted.*

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## Increasing Shareowner Value Is the Job Society Demands

Our society is based on democratic capitalism. In such a society, people create specific institutions to help meet specific needs. Governments are created to help meet civil needs. Philanthropies are created to help meet social needs. Churches are created to help meet spiritual needs. Businesses such as ours are created to meet economic needs. The common thread between these institutions is that they can flourish only when they stay focused on the specific need they were created to fulfill.

When institutions try to broaden their scope beyond their natural realms, when they try to become all things to all people, they fail. Take, for example, the failure of the former Soviet Union. While some might point to the Soviet government's invasion of the private lives of its citizens, the collapse was driven by that government's insistence on running businesses and other functions of society. Ultimately, the government became unable to perform any of the functions it attempted, let alone its true purpose – that of governing its citizens.

While society's institutions remain healthy when driven by their core purposes, society remains healthy when supported by all of its institutions. Our society not only demands support from commerce; in fact, society thrives on it. Without businesses, a government could not afford to pay for services. And, businesses equip individuals to contribute to the success of society's other institutions, such as philanthropy or religion, by employing those individuals and offering them income, which they may choose how to use.

Make no mistake, businesses also benefit from a healthy society. We need educated employees and the use of roads and other services our tax dollars help fund. It is a continuous circle, broken only when an institution loses sight of its purpose and fails to play its part.

But government cannot be all things to all people. Similarly, I believe it would be wrong, perhaps even arrogant, for a business to think it can be all things to all people. We have one job: to generate a fair return for our owners, who have entrusted their assets to us. Without focusing on that job, we fail. And an unfocused, unsuccessful company not only fails to deliver value to its owners, it is a drag on the rest of society. Healthy companies, by contrast, can contribute to society in a wide variety of ways.

## Increasing Shareowner Value Enables Us to Contribute to Society

It is important and gratifying to me that my company does good deeds for the communities in which we do business. But I believe the greatest contributions we make to society come not because we do good *deeds*, but because we do good *work*.

In recent years, numerous academic studies have clearly quantified the significant economic impact The Coca-Cola Company exerts by investing in countries such as China, Egypt, Poland and Romania. For example, a study in Egypt showed that one direct job in the Coca-Cola system creates or supports 7.6 other positions in that country's economy.

And, we better understand our ability to contribute to society by creating value when we look closely at the groups of people who are our owners – those individuals for whom we work.

*The greatest contributions we make to society come not because we do good* ***deeds****, but because we do good* ***work****.*

Nearly 18 percent of The Coca-Cola Company is owned by its employees and directors. Another 38 percent is owned by institutional investors, firms that manage the retirement funds and savings of teachers, public employees and other citizens of our society. About 36 percent of our owners are individuals, many of whom have held our stock for decades. Finally, 8 percent of our company is owned by charities, endowments and foundations. These organizations clearly understand the direct relationship between our ability to create value and their ability to provide services.

Consider the Shriners Hospitals for Children, a network of 22 hospitals providing free medical care to more than 35,000 impoverished children a year. More than 90 percent of their $416 million annual operating budget is funded by earnings from their endowment, which includes 215,000 shares of stock in The Coca-Cola Company.

Atlanta's Emory University is endowed with more than $1.9 billion in stock of The Coca-Cola Company. The value we create and the dividends we pay provide scholarships, buildings and many other services to thousands of students. In fact, a recent report in the financial publication *Barron's* credited Emory's holdings in shares of The Coca-Cola Company with fueling the school's expansion of its academic program, and its rise in national image. That same report said Emory's endowment achieved the best returns in the academic world for the past decade, again crediting the school's holdings in The Coca-Cola Company. While we feel proud of their achievement, we must also accept and act on the responsibility they have bestowed upon us by their entrusting such a significant part of *their* future in *our* future.

And finally, consider the Atlanta-based Woodruff Foundations, created by the patriarch of our company and his family members. Together, they have assets of more than $6 billion and will distribute nearly $250 million in 1997 to help the arts, education and social services. In fact, every time The Coca-Cola Company's stock grows $1 per share, the Robert Woodruff Foundation and its associated foundations increase their charitable contributions by *$6 million.*

*We must remain focused on our core duty: creating value over time.*

A bankrupt company is incapable of employing people, serving customers, supporting charitable institutions or making any other contributions to society. But a healthy company fulfills its responsibilities and can have a seemingly infinite impact on others. Understanding that responsibility reminds us that we must remain focused on our core duty: creating value over time.

## Creating Value over *the Long Term* Keeps Us from Acting *Short-sighted*

The long-term nature of our commitment keeps us disciplined to creating value for all our stake holders on an enduring basis. Think about it. If a company wanted merely to create shareowner value *right now,* its leaders could suddenly make hundreds of decisions that would deliver a staggering short-term windfall. They could gouge their customers and suppliers. They could stop investing in their brands or stop behaving like good corporate citizens. They could slash salaries and benefits. They could even put their business up for auction to the highest bidder.

But that type of behavior has nothing to do with sustaining value creation over time. To make yourself of unique value to your share owners over the long haul, you must also make yourself of unique value to your consumers, customers, partners and fellow employees *over the long haul.*

That means not accepting a "scorched-earth" adherence to profit at all costs. Certainly, harsh competitive situations can sometimes call for harsh measures. But too often, those harsh measures are called for because a company's leadership at some point lost focus on its mission, and, as a result, the company was left sluggishly behind as technology or marketplace conditions changed.

Harsh measures are not characteristic of a company that is creating long-term value. A company creating long-term value is one that is growing, not shrinking.

In his newest book, *Business As A Calling*, the widely known lay theologian Michael Novak cites a thought from David Packard, of Hewlett-Packard. That thought goes as follows:

> When a group of people gets together and exists as an institution that we call a company. . . . They are able to accomplish something collectively they could not accomplish separately. Together they make a contribution to society, a phrase which sounds trite but is fundamental.

We, in business, do have a calling. We have a calling to reward the confidence of those who have hired us – and to build something lasting and good in the process.

In these times, more than ever, we must stand for something. We must embrace our duty – embrace the calling that business offers and feel proud about it. And we should always act with the focus and commitment that calling demands of us.

## What Does Shareowner Value Mean?

It's simply the value that is assigned to our company by the marketplace, either in total or on a per-share basis. We believe the marketplace assigns that value based on the incremental economic value generated by our business operations.

That's why managing our business for shareowner value means making decisions that maximize the economic value that is added to our company today, and the investment community's confidence in our future.

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