The fiduciary duty of publicly-traded corporations is to maximize True Shareholder Value.

A shareholder is an individual (or company) who legally owns a share of a company. Shareholder value is the cash-in-hand value to a particular shareholder of anything that can be valued regarding the company (the company itself, a division of the company, a project, etc.). It is uniquely determined by a state of information and that particular shareholder's current situation, portfolio, and risk/reward profile.

Different relevant information will generally result in different calculated values. Shareholder value calculated from a narrow set of information will be different than shareholder value calculated from a broad set of information. Many investors and executives take a narrow and short-term view, considering almost exclusively the accounting current bottom line and upcoming yearly earnings estimates. This myopic view ignores factors that have not been precisely identified in detail, even though it is long-term earnings that usually constitute the vast majority of a company's value. In contrast, a comprehensive view (or perhaps "long-term view") considers all available and relevant information, integrates long-term factors into thinking, models, and analysis, and does so in the context of the Economic Markets.

One estimate of the shareholder value of a corporation is the corporation's stock price, which is the best estimate for those on the outside of a corporation with no other information. This is because the beliefs of current and potential shareholders are reflected in their stock trades. The stock price is the last traded price determined by a current shareholder and a potential shareholder, each of whom makes their choices based on their current information and whatever is occurring in their personal lives. Since the other shareholders didn't trade at that price, they must think their shares are worth at least as much the last traded price, while other potential shareholders think that the shares are worth less.

Corporate executives have access to "inside information", i.e., information that is not known publicly, which is potentially very different from that of those on the outside. Since the executives have inside information, we would expect that their calculation of the shareholder value of the corporation could be quite different than the stock price.

Publicly-held corporations have both the desire and fiduciary duty to maximize shareholder value with a comprehensive view, including any available inside information. This is *True Shareholder Value* -- the value potential shareholders would assign if they had the same information as the corporation's insiders: the corporation's directors, executives, and managers.

True Shareholder Value is not equal to stock price.

The fiduciary duty of publicly-held corporations could not simply be to maximize the current stock price. If it were, then it would be the obligation of the management to give the impression to potential shareholders that the company had maximum value. They would do this without regards to tomorrow. And tomorrow they would do it again. It would be their ethical responsibility to give a falsely positive impression of the company (though the former Enron chiefs, Lay and Skilling, were convicted for this very thing). If they have a chance to invest in a project that would pay off huge in the future but would have to be kept secret from their competitors and thus the public, they would have to forego such an opportunity as it would hurt the current stock price. In contrast, corporations that faithfully fulfill their fiduciary duty of maximizing True Shareholder Value will tend to benefit the environment and stakeholders along the way.

Maximizing True Shareholder Value may also be quite different than maximizing value for one particular shareholder of the corporation. Shares of publicly-held corporations are bought and sold nearly continuously during trading hours and individual shareholder attitudes may vary considerably. Ultimately, it is the responsibility of the corporation to maximize True Shareholder Value, and it is the responsibility of the individual shareholder to customize and diversify his or her portfolio to meet his or her own needs.

True Shareholder Value considers all available relevant information.

Ultimately, it's the cash flows coming in and out of a corporation that determine True Shareholder Value, even when they're far into the future, uncertain, or non-specific. Specific cash flows include items like costs, revenues, and taxes and have direct and relatively easily measured effects on True Shareholder Value.

The opportunities, choices, and options available now and in the future are the means by which corporate decision makers create True Shareholder Value. For example, a project manager can start a project, speed it up, slow it down, or stop it altogether. Non-specific potential opportunities are also considered. Examples include the possible opportunities that are developed from an R&D strategy, in which the novel ideas resulting from the R&D do not even exist yet to consider in any detail. Another example is how Amazon's initial strategy to lead online book sales would also provide them the option to expand into sales of other products and services, although Amazon couldn't have known which particular products or services at the time.

True Shareholder Value considers that the future is uncertain and that there are numerous future possibilities. It accounts for both what you know and for what you know you don't know, like next quarter's sales. It considers quantified amounts of uncertainty and correlation and qualitative notions, relationships, and degrees of belief. It also considers the future resolution of uncertainty and the learning that will occur. You don't know for sure what next quarter's sales will be, but you may have some idea of what the relevant range will be. For example, there may be a 10% chance that you believe sales will be below $1M and a 10% chance that sales will be higher than $5M. If more information is gathered as the quarter progresses, this range will narrow, until by the end of the quarter the true value is revealed. All of this information is potentially relevant in determining the True Shareholder Value of various sales strategies.

There are many forms of company-specific risk, such as the risk of a cash crunch, of paying bankruptcy costs, or of simply losing a customer to a competitor. Intangible potential effects are also considered, including sustainability factors such as factory maintenance, intellectual property protection, company culture, corporate ethics, reputation, social risks, community relationships, and environmental impact.

True Shareholder Value must be accurately calculated for sound investment and managerial decisions.

True Shareholder Value is a balance between reward and risk to the shareholders' portfolio. The Economic Markets are a good representation of the aggregate portfolio of every potential shareholder in the world, and therefore True Shareholder Value is a Risk-Adjusted Economic Value. Market Risk is found in most business uncertainty.