

# New recommendations for better corporate portfolio management

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Divesting the right businesses at the right time is critical to maximizing shareholder value. However, even the most sophisticated companies encounter substantial barriers to good corporate portfolio management.

In the "Corporate Portfolio Management Roundtable" that appears in the Spring 2008 issue of Morgan Stanley's *Journal of Applied Corporate Finance*, a distinguished group of professionals review the main hurdles facing better portfolio management and identify some innovative best practices.

It's difficult to create value in mergers, acquisitions and divestitures, and rigorous corporate portfolio management can help companies identify and preserve the good while ridding the bad. Public companies face barriers to exit, explaining why many firms seem slow to sell businesses that are reducing their value. There is a tendency of individual investors to wait too long to respond to changing market conditions.

Many boards and CEOs need to revamp organizational structure and compensation systems to ensure managers think more like investors, creating value via internal investment and M&A, as well as by pruning businesses that are worth more to different owners.

Among suggested best practices, Robert Pozen, Chairman of MFS Investment Management, proposes the establishment of an independent group within companies to function like a "SWAT Team" to support objective portfolio management. This SWAT team should consist of

people who work in existing corporate units and do not have a vested interest in the status quo.

Additionally, companies can create an annual strategy offsite for the board to fully explore alternatives for driving shareholder value, including divestitures and capital structure changes. Also, information systems can be put in place that allow transparent analysis of each business unit's true economic returns and capital employed.

Source: Wiley

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