

College of Business book Review by Philip Little for 1/1/07

Title: "Valuation: Measuring and Managing the Value of Companies"

Author: Tim Koller, Marc Goedhart, and David Wessels

Publisher: John Wiley & Sons, Inc.

Publication Date: 2005

Length: 742 pages

Reading time: Reference book

Reading rating: 2 (1 = very difficult; 10 = very easy)

Overall rating: 4 (1 = average; 4 = outstanding)

One of the most perplexing problems facing senior management of companies is that of determining how to create real economic value for their shareholders. More specifically, managers must develop business strategies that will create added value for the company. Often this means choosing between alternative strategies. Perhaps the weakest link in this process is that of determining the valuation effect of competing strategies.

The authors of this book are all current or former consultants of McKinsey & Company's corporate financial practice. Their more than 50 years of combined work with companies all over the world enable them to provide a "real world" and a very practical handbook for business professionals wanting to explore the somewhat confounding world of corporate valuation. Thus, the authors have created the most comprehensive, understandable, and usable book on valuation on the market today. The value of the information in this book would probably cost hundreds of thousands of dollars of hired consultant services.

The authors begin the book with chapters dealing with the basic fundamentals of value creation and proceed into a number of topics on the techniques of valuation such as how to analyze historical performance in order to forecast future performance which then leads to the estimation of corporate valuation. The financial neophyte will be relieved that the authors use case information from real companies to illustrate the techniques. Additionally, the authors have developed a downloadable spreadsheet valuation model for practitioners that is similar to the one they use in their consulting practice.

Part three of the book contains some very useful topics dealing with various steps that a company can take to create value including performance management systems which include long-term strategic plans, short-term budgets, capital budgeting systems, performance reporting, and compensation systems. The authors explain how the various management systems should be aligned with the company's strategy to maximize value. Most books on financial analysis focus more on analytical techniques rather than the link between corporate strategy and financial analysis. This book is focused on the analysis of a business using financial data and every technique is tied back to the company's business strategy.

All business professionals who are or aspire to be part of a company's senior management will benefit from the wealth of information in this book. Certain parts of the book may be overwhelming for some users who do not have an extensive understanding of finance or accounting. However, anyone with a reasonable understanding of business who is willing to undergo a diligent study of the material contained in the book will be rewarded. More importantly, the company and its shareholders will be rewarded through enhanced company value.

Philip Little is a Professor of Accountancy, Finance, and Entrepreneurship at Western Carolina University, where he teaches and publishes in the areas of Managerial Accounting, Financial Analysis, and Entrepreneurial Finance. For previously reviewed books, visit our Web site at www.wcu.edu/cob/.