

Review of *Fixing the game: Bubbles, crashes, and what capitalism can learn from the NFL* by Roger L. Martin

Most business books are excruciatingly boring for anyone with even a rudimentary social science background. Business authors value clever turns of phrase over deep argumentation; platitudes masquerade as insights; there are lists, lists, lists everywhere. Read against the background noise of recent business books, Martin's "Fixing the Game" is a welcome departure that harkens back to Peter Drucker's classic works. Most importantly (to me at least) Martin sticks close to the data. Ideas are great; we need ideas, and everyone should have at least one. Martin puts his and other people's ideas to the test using real data on the performance of US companies and the US economy over the past half-century, and Martin's ideas come out on top -- and no, not because he fixes the game!

Martin's title, "Fixing the Game," is a double-entendre: he wants to fix the game of the American economy by making it work better for shareholders, employees, and communities, and he shows how CEOs have instead "fixed" the game to ensure they take the bulk of company profits for themselves. What Martin wants is for government to take a greater role in ensuring that public companies are run for public, not private gain. Square in his sights is the "shareholder value" theory of management, which, Martin shows, is anything but. In implementing strategies that have supposedly been designed to enhance shareholder value, American CEOs have actually destroyed enormous shareholder value while enriching themselves.

A major focus of Martin's analyses is executive compensation. Executive compensation has mushroomed in the shareholder value era mainly through mechanisms that were supposed to align the interests of executives with those of their shareholders, particularly the granting of share options as a major portion of executive compensation. The problem, as Martin makes clear, is that share options allow CEOs to share all of their shareholders' upside gain but none of their shareholders' downside pain. As a result, CEOs have enormous incentives to pursue risky, potentially company-destroying strategies in hope of big payoffs if they bet correctly. Corporate CEOs today practice a new kind of heads-I-win, tails-you-loose capitalism.

If there's a shortcoming in Martin's analyses, it's that he fails to identify what is to me the key fault of the goal-alignment thesis: the idea that there is any need to directly incentivize CEOs to work harder to meet company financial goals. I think it's safe to say that no one succeeds in business to the point of becoming a Fortune 500 CEO without a very driven personality, a very strong work ethic, and a laser-like focus on company performance. Any board that hires a laid-back, lazy, scatterbrained CEO deserves to see their company run into the ground. It simply boggles the mind to think that if you didn't give a Jack Welch or Jamie Dimon stock options he wouldn't work hard for the company. Maybe supermarket clerks need to be incentivized to sell bonus cards, but CEOs do not need to be incentivized to pursue profits. Although Martin's data are completely consistent with this point of view, he never makes the point himself.

A final note: though Martin does repeatedly turn to the NFL as an example of a well-regulated market, the NFL analogies aren't really strong enough or ubiquitous enough to justify the book's subtitle. This is not primarily a book about what capitalism can learn from the NFL. It's in there, but it's not the topic of the book (as the subtitle would imply). Ditto bubbles and crashes. This is fundamentally a book about appropriate incentives, appropriate regulation,

and effective management. Don't buy the book for the subtitle, but buy the book. It's one of the best I've read. Finally -- an intelligent business book.