WeWork

for Adam Neumann

WeWork, the shared workspace real estate company, may work for its billionaire founder Adam Neumann, but will it work for anyone else? Despite recent changes to the soon-to-be-public company’s structure, the governance of the operation ultimately works against the interests of its shareholders.

There are two major governance-related problems with WeWork that should give any potential investor pause. The first is that of real estate, a market, regardless of recent events, remains in place, enabling Neumann to retain significant control over the company, despite a lengthy and disproportionate economic interest. The second, as we will explain, is the first problem, the numerous conflicts of interests that Neumann had created over time and that, in the face of various unforeseen problems, the investors have sought to reduce.

Initially, the company proposed to go public with an equity structure that would give its founder, Neumann, stock with a voting ratio of 20 votes per share, while most other investors were entitled to one vote for each share. This structure would have given Neumann complete control over the company for his lifetime, and beyond. This approach raised serious concerns for investors whose capital was eagerly sought, but whose opinion was as eagerly rejected. The outcry over this seemingly eternal control of the company was as eagerly rejected. The investor community allocation of voting rights produced such outrage in the investment community that Neumann in complete control, to the WeWork story, can arise in such companies in and of itself is always problematic. There is an economic incentive to monitor management because it stands to capture a significant proportion of any increase in share value that results from such monitoring. For this reason, a controlling shareholder has at least the potential to be a more effective monitor of corporate management than is possible with the weak monitoring available in the widely held model.

Through the dual class structure, Neumann completely controlled the company. A controlling shareholder in itself is always problematic. The problem is exacerbated here by the fact that his economic interest is much lower than his voting interest. Neumann has the power to act for the long-term and in the best interests of all shareholders. Unfortunately, for various reasons, this is unlikely to occur. Neumann and the company’s controlling shareholder have little, or in the case of Neumann’s wife, no incentive to act in the best interest of all shareholders. The incentive for such opportunistic behaviour is in fact the exact opposite of all the costs borne by the company and the remaining shareholders. The incentive for a controlling shareholder to act in the best interest of the company is to destroy shareholder value, or control the company at an unreasonably low cost for himself and给自己, Neumann, stock with a voting ratio of 20 votes per share, while most other investors were entitled to one vote for each share. This structure would have given Neumann complete control over the company for his lifetime, and beyond. This approach raised serious concerns for investors whose capital was eagerly sought, but whose opinion was as eagerly rejected. The outcry over this seemingly eternal control of the company was as eagerly rejected. The investor community allocation of voting rights produced such outrage in the investment community that Neumann in complete control, to the WeWork story, can arise in such companies in and of itself is always problematic. There is an economic incentive to monitor management because it stands to capture a significant proportion of any increase in share value that results from such monitoring. For this reason, a controlling shareholder has at least the potential to be a more effective monitor of corporate management than is possible with the weak monitoring available in the widely held model.

So, in a controlled company, there is an agency concern in such cases is thus about management opportunism. In controlled companies, by contrast, the controlling shareholder is an economic incentive to monitor management because it stands to capture a significant proportion of any increase in share value that results from such monitoring. For this reason, a controlling shareholder has at least the potential to be a more effective monitor of corporate management than is possible with the weak monitoring available in the widely held model.

In the general welfare of the company. This much is contrary to managerial interests as well – as an executive who is held accountable for their actions will, ultimately, create long-term value for themselves and their fellow shareholders.

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