DO companies exist merely to generate economic returns to their owners? The concept of "shareholder value" suggests this should be their primary focus. But in a hard-hitting note, James Montier of GMO, the fund management group, suggests this is "The World's Dumbest Idea".

As Mr Montier argues, the shareholder value concept arose in part as a way to get round the agent-principal problem - that executives will run firms for their own benefit, rather than for that of their owners. The idea goes back to Adam Smith who wrote that

"being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own......Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company."

In the 1980s, the worry was that executives were too focused on their own perks (jets, pensions etc) and on empire-building. From this arose the idea that executive pay should be linked to the share price, in the form of options. And what has been the result? Mr Montier defines the era of "managerialism" as from 1940-1990 and the shareholder value era as the period since then. (One could argue with this timing, although he claims the results are robust as to the timing of the cross-over.) Real returns were slightly higher in the era of managerialism and much higher if one focuses on earnings growth rather than valuation. (A share price increase can either be the result of earnings growth, or the market placing a higher value on a given level of earnings. Such higher valuations can be transitory.)

So shareholder returns haven't gone up in the era of "shareholder value". CEO pay has, though. Hard to believe but CEOs got by in the 1970s on $1m or so; their total remuneration has grown eightfold in real terms since then. The focus on the share price has led to an unhealthy concentration on meeting the short term earnings per share target; surveys have shown that executives will reject a project with a positive rate of return if it damages the ability to meet the next quarter's eps. Money has been returned to shareholders (in the form of buy-backs) while business investment has declined; as a proportion of GDP, it is still lower than at any time in the 1947-2007 period.

CEOs can be forgiven for pursuing a "get rich quick" strategy; since the 1970s, the average tenure of a CEO has fallen from almost 12 years to six. Why would they care about long-term value? And while buy-backs may return money to those shareholders who take advantage of them, they may damage long-term investors; the peak for buy-backs was in early 2008, just when the market was about to crash. As Warren Buffett has said, this was the equivalent of buying dollar bills for $1.10.

So the whole concept should really be renamed "CEO value"; they have been the main beneficiaries. And all this has led to growing inequality; two-thirds of those in the top 0.1% of earners have been executives or those working in finance. And that trend, which has spilled out to the rest of the developed world, is leading to the growing anger of voters and the resistance to globalisation which may eventually cause even more damage to business and investors.