

As Books Close On 2007, Managers Should Take A Long-Term View

By William W. George and Henry Schacht

With the new year upon us, leaders of publicly traded companies worldwide will be under considerable pressure to plump up their year-end numbers by whatever legal means are at their disposal, in the hopes of putting a positive sheen on what has been a tumultuous year for most sectors.

While doing so may be tempting, such short-term thinking is extremely risky to the long-term health of the enterprise. Managing primarily for quarterly results, while often pleasing in the near term to the security analysts and short-term shareholders, inevitably will place the firm's long-term shareholder value in great jeopardy. While the shareholders can sell their stock at this point, corporate leaders have the clear and unequivocal responsibility to build the enterprise for the long-term benefit of its customers, employees, and its shareholders. Any other approach violates their duties to the corporation as its elected leaders.

As business executives, we are both fervent capitalists and strong advocates for the creation of long-term shareholder value. But we have also observed a decade of serious decline in values in business, driven by a system that rewards managers largely on the basis on today's profits and short-term stock price appreciation, without consideration for those with a long-term stake in the company. While bad-news stories about business come and go, recent Gallup polls tell us that public trust in the ethics and values of business leaders has reached an all-time low point of a meager 18%.

We believe 2008 is a time for action - for executives, investors and policymakers to discard the rules and incentives that contribute to short-term thinking and to replace them with new guidelines that create long-term value for the multiple stakeholders of a firm.

The short-term focus on making the numbers, advocated by so many on Wall Street, puts pressure on leaders of public companies to act in ways that are harmful to the corporation's best interests. In fact, the subprime meltdown is an example of the corrosive effects of short-term personal reward without regard for the risks involved.

The time is overdue to return to longer view. An important initial step is to abandon the common practice of providing quarterly earnings forecasts for Wall Street, and then working to beat that number. Long-term investors such as Warren Buffet and companies such as Cigna, Office Depot and Progressive Insurance have already done so. Stepping off the short-term treadmill is both a real and symbolic act in support of reintroducing long-term bias, but it is not the only change that needs to be made. Executives and investors need to examine the real drivers of business success and develop a way to measure, communicate and reward long-term performance benchmarks. Policymakers such as the Securities and Exchange Commission and Internal Revenue Service should pick up where businesses leave off and take a close look at revising tax and other incentives that support the short-term over long-term view. They should even consider following Europe's lead by moving to six-month reports over quarterly statements.

Thankfully, we see some encouraging signs that the tide is turning. Prominent organizations in the financial and business community - including the Business Roundtable, the Conference Board, and the Council of Institutional Investors, the business-policy group Committee for Economic Development and labor unions like the AFL-CIO as well - have all acknowledged the deleterious effects of short-termism.

The Aspen Institute, under the banner of its Corporate Values Strategy Group, has assembled an unlikely consortium of corporations, investors, corporate governance experts and labor unions whose members are rolling up their sleeves to bolster a long-term view in their own operations and the wider market. The group, with a combined market capitalization of more than \$1 trillion, earlier this year released the Aspen Principles for long-term value creation.

In a spirit of innovation, experimentation and continuous improvement, signatories - including such corporate leaders as PepsiCo, Xerox, and Pfizer - are piloting new practices at their firms. Efforts like this one offer some hope that 2008 might not be business as usual after all, but a year when companies are empowered to return to managing for the long term, and to restore a sense of values and accountability to all the stakeholders of the firm.

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