Strategies@Work LLC

solutions that transform

October 1, 2011

Gleanings

Gerald R. Chester, Ph.D.
President

Strategies@Work, LLC
Solutions that Transform

Services

- Consulting
- Planning
- Training

What Do We Do Now?

Throughout the fall and spring, few pundits gave credence to the possibility of a double dip recession. Now many, if not most, of these same pundits have changed their minds. Fear of a global recession has gripped the financial markets. The cause of this calamity is blamed on both government and business. Worldwide, people are increasingly losing confidence in both to manage the economy.

Earlier this year, McKinsey & Company's global managing director, Dominic Barton, issued a call to action directed at global business leaders. His thesis is that the current economic calamity reflects a flawed practice of capitalism as a business system. Therefore reform is needed. And if the global business community does not reform itself, then public pressure will force governments to exert control.

Over the past two years, Dominic met with more than 400 business and government leaders seeking to understand the state of business worldwide. These conversations convinced him that the global systems of business, which are mostly capitalistic, must change. In the spring of 2011, he published an article in the *Harvard Business Review* (http://hbr.org/2011/03/capitalism-for-the-long-term/ar/1) on the need to reform the paradigm of capitalism currently and widely practiced.

Barton argued that if the current economic crisis (blamed at least partially on failed capitalistic business systems) is not properly addressed and the economic system collapses again, capitalism may no longer be a socially acceptable economic philosophy.

He asserts that the problem with the current paradigm of capitalism is threefold:

- There is short-termism.
- Companies are focused on serving shareholders instead of all stakeholders.
- Corporate governance is weak.

Following is a summary of these three problems and Barton's proposed reforms.

Reforming Short-Termism

The difference between the East and West is the time frame of strategic thinking. Asians think in terms of ten to fifteen years (e.g., Korea reportedly has a sixty-year vision). The USA and Europe are generally myopic with regard to business and investment matters.

For example, in the USA, the average CEO tenure is six years. Politicians are focused on the next election. The average holding period for equities is seven months. "Hyperspeed" trading (the holding period is measured in seconds) accounts for 70 percent of all equity trading.

The leverage points in the fight against short-term myopia are the sources of capital. Of the ~$186T in investment capital worldwide, $65T (35 percent) comes from pension funds, insurance companies, mutual funds, and sovereign wealth funds.

One would presume that these sources of capital would think long-term, but they don't. Why? Because investment managers are evaluated based on short-term metrics and engaged based on short-term contracts. Furthermore, the investment managers are compensated based on assets under management, which increases as short-term results increase. There is no incentive on the part of the investors or the investment managers to think long-term.

Consequently, short-term thinking by investors results in short-term management of companies.

Barton's recommendations are twofold:

- Review the performance of investment managers every three to five years instead of yearly.

Coaching

- Change the diversification strategy from holding thousands of stocks to holding hundreds, enabling investment managers to actively engage with the companies they own to help improve performance.

Serving All Stakeholders

“Greed is good” is the business philosophy in vogue today—though few admit it. Barton expressed the philosophy this way: “Without some overarching financial goal to guide and gauge a firm’s performance, critics fear managers could divert corporate resources to serve their own interests rather than the owners’.” The result of this philosophy is a focus on serving shareholders rather than stakeholders (employees, suppliers, customers, creditors, communities, and the environment). Serving stakeholders is viewed as counterproductive to serving shareholders even though many business leaders will acknowledge that serving stakeholders is a viable way to improve profitability.

Affiliate Consultants

In the West, the “greed is good” philosophy has eroded confidence in the capitalistic economic system. Though many executives and investors believe they must lead not only in business but also in social and political matters, few act on this because of the pressure for short-term results. Consequently, the “greed is good” philosophy continues to drive investors, the capital markets, and, therefore, business.

Barton’s proposed reform is to focus on serving all stakeholders as a way to, over the long-term, maximize the return to the shareholders.

Governing Like Owners

Corporate ownership is generally fragmented. Boards should serve as proxies for the owners (shareholders), but many board members have little vested interest. Furthermore, many corporate board members lack specific synergistic expertise. Consequently, the boards don’t ask the right questions and/or don’t know the questions to ask, and they are not motivated to become informed. As a result, management tends to listen to the largest investors (and media) who make the most noise. These parties generally are myopic and narcissistic.

According to studies by McKinsey, the most effective ownership structure combines some exposure in the public markets (for discipline and capital access) with a commitment to long-term ownership.

Barton’s recommended reforms are threefold:

- The ownership-based governance requires board members who are engaged, knowledgeable, and function like owners.

- CEOs must be evaluated against long-term goals. Furthermore, they need to have a significant investment in the company and their compensation must be linked to the fundamental drivers of long-term value.

- Long-term shareholders should be given increased voting power.

Free PodCasts
Click here to subscribe.

Conclusion

Barton’s conclusions are simple. Myopic thinking needs to be replaced by long-term thinking. Companies should seek to serve all stakeholders as the best way to increase shareholder value. And boards should govern like owners. He believes that this reformed paradigm of capitalism will facilitate a stronger, more resilient, more equitable, more trustworthy, and more efficacious business system.

My temptation is to buy in to this fine-sounding argument. However, the apostle Paul warned against being deceived by fine-sounding arguments.

> My purpose is that they may be encouraged in heart and united in love, so that they may have the full riches of complete understanding, in order that they may know the mystery of God, namely, Christ, in whom are hidden all the treasures of wisdom and knowledge. I tell you this so that no one may deceive you by fine-sounding arguments. (Colossians 2:2–4 NIV)

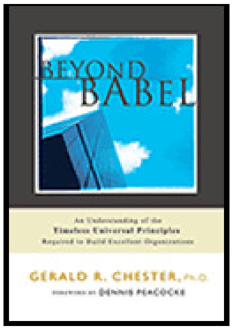
Paul was describing any argument that sounds credible but is not based on Christ as a fine-sounding argument. Barton’s analysis and proposed reforms appear to be offered based on a deist or naturalistic worldview. Arguments based on naturalistic thinking are, at best, partially true. Arguments based on Christ are profoundly true. What would be the conclusion if Barton’s data were to be interpreted based on a biblical worldview, that is, based on Christ?

View online
Print

Conclusion Reconsidered

While many of the Mr. Barton’s conclusions seem reasonable and somewhat biblical they are not as profoundly biblical as they could be.

The following table shows the three major areas of reform suggested by Barton in the left column. The middle column shows Barton’s proposed reforms and the right column shows a more profound biblical idea.



For book info click here

Issues Raised by Barton	Barton's Proposed Reforms	Biblical Reforms
Myopic thinking	Long-term thinking (3 to 5 years)	Multi-generational thinking
Shareholder focused	Stakeholder focused	Christ focused
Weak boards	More engaged boards	Boards seeking God's will

The best solution to myopic thinking is a multi-generational view, rather than Barton's proposed 3 to 5 year view, which is single-generational thinking.

While it is better to be stakeholder centric than shareholder centric, an even better perspective is to be Christocentric. Colossians 3:23 instructs us to work as if God is our boss, which He is. So the real focus of any business should be Christocentric. Knowing that God is our Boss and being focused on Him, we will serve all stakeholders, including the shareholders, in accordance with the will and ways of God.

And finally, weak boards reflect not just unengaged boards, but boards who do not understand how to discern the will and ways of God. Sound governance of any organization is rooted in a clear understanding of God's purpose for the organization (i.e., His will) and a commitment to governing based on His ways (i.e., a biblical worldview).

What do we do now?

The answer is profoundly simple. The solution to the failed business system is not naturalistic reformation, as proposed by Barton, but *biblical* reformation. Only then can the people of the world enjoy the blessings that flow from alignment with the will and ways of God.

http://StrategiesWork.com
Gerald@StrategiesWork.com
972 473-8655 USA

Training from a Biblical Worldview

Helping You Find and Fulfill Your Life Purpose

Your Need	Training Venue	Information (click below)
Training to Find Your Life Purpose	*Seminar:* Strategic Life Alignment	Recordings Available
	Webinar: Strategic Life Alignment Alumni Event	Recordings Available
Training to Fulfill Your Life Purpose	*Seminar:* BTS Seminar: Organizational Finance	October 28, 2011
	Webinar: BTS Seminar: Organizational Finance	November 7, 14, and 21, 2011
	Business Transformation Series Seminars/Webinars	Recordings Available