FOREWORD BY DAVID M. RUBENSTEIN

GO LONG

WHY LONG-TERM THINKING IS YOUR BEST SHORT-TERM STRATEGY

DENNIS CAREY
KORN FERRY

BRIAN DUMAINE
FORTUNE MAGAZINE

MICHAEL USEEM
THE WHARTON SCHOOL

RODNEY ZEMMEL
McKINSEY & COMPANY

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Praise for *Go Long*

"One of my fundamental beliefs as CEO is that prioritizing the short-term at the expense of the long-term is simply not sustainable and perpetuates the kinds of boom-splat cycles that aren't good for any business or stakeholder. That's why *Go Long* is a must-read. If you're looking to build or lead a company that grows consistently not just from quarter to quarter, but year to year, that balances short-term and long-term priorities, that focuses on both the level and duration of returns, this book is for you."
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"In Amgen's business of biotechnology, investments in significant innovations can begin up to a decade before we begin to see substantial returns. Through deep insights and original reporting, *Go Long* helps to bring leaders and investors the principles they need to keep long-term thinking at the heart of their strategies."
—Robert Bradway, Chairman and CEO, Amgen

"Intensifying demands for near-term corporate performance can force immediate gains but also lasting damage on company prospects and stakeholder fortunes. With inside accounts of how some of the world's leading business executives manage for the future, *Go Long* provides a tangible roadmap for long-term leadership. To improve the state of this world, here is a primer for doing so."
—Klaus Schwab, Founder and Executive Chairman, World Economic Forum, and author, *The Fourth Industrial Revolution* and *Shaping the Fourth Industrial Revolution*

"*Go Long* combines insightful analysis with inspiring stories to show CEOs, boards, and investors how purpose-driven strategies can create important economic and societal benefits."
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"*Go Long* provides critical advice to corporate leaders dealing with today's most pressing issue of business strategy—long term versus short term management. Must reading for directors, CEOs and all executives."

—Martin Lipton, a founding partner, Wachtell, Lipton, Rosen & Katz

"*Go Long* sharply delineates the tradeoffs that executives face in setting priorities. Decisions that build long-term value are the essence of great leadership."

—Donald J. Gogel, Chairman and CEO, Clayton, Dubilier & Rice

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Foreword

David M. Rubenstein
Cofounder and co-executive chairman, The Carlyle Group

In the 1960s, with the rapid-growing institutional and retail participation in public equity markets, much investor interest developed in the short-term stock performance of public companies. Investors were far less interested in holding on to AT&T or GM shares for a generation and much more interested in moving in and out of stocks, based on perceived or actual short-term earnings growth.

This phenomenon produced an exponential rise in the 1960s of institutional public equities analysts covering every development in a public company's performance. The popular investment trend seemed largely to be one of moving frequently in and out of stocks. Long-term holds were increasingly viewed as the province of bank trust departments.

The phenomenon of seeking short-term gains grew even more dramatically in the subsequent decades as much more money from growing pension funds, IRAs, 401(k)s, and mutual funds flowed into the institutional and retail equity markets.

For a great many investors, the focus was largely on the next quarter's earnings (for that would affect the near-term stock price). A long-term perspective was to focus on earnings two and three quarters down the road, and that long-term perspective did not appeal to many of those investors. Other than Warren Buffett and a few of his followers, no one seemed to focus on what might happen 5 and 10 years down the road.

This relatively short-term focus on near-term earnings inevitably resulted in public company CEOs focusing their own attention on meeting short-term earnings expectations.

It could be argued that this interest in public companies' short-term performance was not wholly bad. Stock markets flourished, creating enormous levels of wealth for investors. The US economy dramatically expanded and blossomed, despite the inevitable recessions and crises that occurred during the 1960s through the turn of the century. Many new companies, aided by well-funded venture capitalists, were created and transformed industries. Older companies were reinvented and modernized, aided by private equity investors. And the American economy truly dominated the global economy in the last half of the twentieth century, in a way few economies had ever dominated the global economy.

But then came the twenty-first century. Existing competition from European and other developed economies intensified. The emerging markets (most particularly China) challenged American companies (and the US economy) as they had never before been challenged. And many well-known, old-line US companies that had focused on next quarter's earnings suddenly had fewer weapons to compete in the newer world. Continued American global dominance was not inevitable.

Fortunately for the US economy, a number of entrepreneurs (toward the end of the past century, but principally in the early part of this century) tried to reinvent the world a bit by focusing more on longer-term goals and less on next quarter's earnings. And these companies prospered in ways that those focused principally on the next quarter could not have anticipated. The best known of these longer-term-focused companies—Apple, Amazon, Facebook, Google, and Microsoft—overcame competitors focused on the short term.

These new companies typically sprang from the vision of a founder dedicated to building a better product or providing a better service, with little focus on short-term concerns. The focus was on 10 years down the road, not 10 weeks or even 10 months.

These founders—with the strength of their convictions and near-manic pursuit of longer-term growth and excellence—often gave short shrift to the concern of institutional analysts or investors about short-term earnings.

Perhaps most famously, the Wall Street herd derided Amazon's lack of concern about near-term quarterly earnings. Jeff Bezos, the company's CEO, was focused on long-term growth and essentially ignored analyst demands for short-term earnings.

The result is now well known. Amazon became one of the world's most valuable companies—and Bezos the world's richest man—in large part because of his focus on producing earnings not in the next quarter but 5, 10, and 20 years down the road.

While the US economy has no doubt benefited in this century from CEO-founders like Jeff Bezos, who are able to focus on the longer term, the truth is that most public company CEOs are not visionary founders. Rather, they are increasingly focused on next quarter's earnings. And the focus is becoming more intense than ever before for a variety of reasons:

- The tenure for most public company CEOs is shorter than in the past—and shorter tenure inevitably means CEOs tend to focus on shorter-term objectives.
- Hedge funds, with quite short-term investment goals, have increasingly become large investors in public company stocks—and they prompt these companies to also focus on the short term.
- Some of these hedge funds—along with other investment vehicles—are taking on the role of activist investors ("activist" is now often a euphemism for short-term investment goals).
- Well-capitalized, algorithm-based, computer-driven investors are growing in market importance and size, and their focus is inevitably toward serving short-term gains.
- Plaintiffs' lawyers are invariably focusing their attention on short-term earnings declines that may not have been

anticipated by markets—few lawsuits are filed against public companies for failing to project sufficiently long-term earnings and corporate growth objectives.

- Regulatory oversight from federal and state governments also invariably focuses on short-term earnings surprises (more typically on the downside). Here, too, regulators do not penalize CEOs or companies for failing to have solid 5- and 10-year earnings growth plans.

The consequences of these more modern phenomena seem to be binary. CEOs of public companies are paying more attention than ever to the next quarter's earnings. Or, those CEOs who can control whether a company should go public are choosing to keep a company private for as long as possible so they can avoid the public company need to produce higher and higher quarterly earnings. (Today, although the number of companies in the United States is significantly higher than 20 years ago, the number of public companies is down by 50%, from roughly 7,300 to 3,600.)

Of course, every company does not have the opportunity to go or stay private. Those companies that are public often have little choice in remaining public, and thereby their CEOs are increasingly subjecting themselves to the just-described modern pressures to focus on the short term.

Why is this really a problem? Great companies prosper by focusing on longer-term objectives—by spending money on research and development and capital improvements. And economies (and thereby societies) prosper by having companies grow, innovate, and improve over longer periods rather than just next quarter.

A number of financial industry leaders have in recent years tried to point out the increasing dangers of short-termism to companies' and economies' futures. And they have succeeded in making the issue one that is appropriate for serious public dialogue. Unfortunately, the increasing public attention to the issue has to date had less measurable impact than might be desired.

Perhaps some incremental, and much needed, impact will be achieved by a serious look at some of the public company CEOs who, in the current short-term atmosphere, chose, at some financial risk to their companies (and themselves), to focus on the long term. They might well be viewed as the Corporate Profiles in Courage.

Four experienced business practitioners and scholars—Dennis Carey, Michael Useem, Rodney Zemmel, and Brian Dumaine—have in fact provided just such a serious look. In *Go Long*, they have provided a well-researched analysis of how six current-generation public company CEOs successfully ignored short-term concerns. The results in all of these cases were stronger companies and better contributors to the well-being of their employees, suppliers, customers, and shareholders.

For anyone who is concerned about the importance of forcing longer-term objectives into a public company short-term mindset, and who wants to learn more about some of the heroes of this effort, this book is a godsend. Indeed, it should be mandatory reading for the CEOs and boards of all public companies. And perhaps because of this book, and public conversations that might result, the tide will begin turning, even if slowly at first, as longer-term corporate goals replace shorter-term goals.

And if that is the case, the authors will have truly done a public service by showing public company CEOs that it is best to focus on long-term goals if they want to also achieve short-term goals. And if they want to build great and enduring companies.

About the Authors

Dennis Carey, a vice chairman of the global executive search firm Korn Ferry, has recruited some of the most successful Fortune 500 CEOs in American business. He is the founder of the CEO Academy, an annual gathering of the nation's top business leaders, and is coauthor of five books, including most recently *Boards That Lead* and *Talent Wins: The New Playbook for Putting People First*.

Brian Dumaine is the founder and editor in chief of the New York media company High Water Press and a contributor to *Fortune* magazine, where for three decades he has held various writing and editing positions, including global editor and assistant managing editor. An award-winning journalist, he has produced investigative pieces as well as articles on leadership, investing, technology, and the environment. He is the author of *The Plot to Save the Planet: How Visionary Entrepreneurs and Corporate Titans Are Creating Real Solutions to Global Warming*, and is the editor of the book *The Greatest Business Decisions of All Time*, with a foreword by Jim Collins.

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Wharton Digital Press was established to inspire bold, insightful thinking within the global business community. In the tradition of The Wharton School of the University of Pennsylvania and its online business journal, Knowledge@Wharton, Wharton Digital Press uses innovative digital technologies to help managers meet the challenges of today and tomorrow.

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Michael Useem, and Rodney Zemmel

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