

Managing in Turbulent Times

A Different CEO Agenda



By Jeffrey E. Garten

The world of the CEO is much different at the beginning of 2003 from what it was just two years ago. The collapse of the late 1990s economic boom, great geopolitical uncertainties, and the corporate transgressions of a number of firms have together unleashed a sea change in the environment for global business leaders.

Taking the reins

The big question is how should these developments affect the agenda for chief executives? What should remain constant, and what should change?

There are, of course, many traditional elements of leadership that corporate leaders will need to embrace, even as major changes sweep over the operating environment. There can be no substitute for strategic thinking and exquisite execution, no alternative to recruiting the best people and creating an exciting environment for them, nothing more important than being able to communicate effectively with a diverse group of constituencies.

As a result of legislation and other regulations in the wake of the Enron collapse, however, CEOs and their top lieutenants must give much more attention to the process of corporate governance. As part of this effort, they will be held accountable for the operations of their companies to a far greater extent than ever before. It will not suffice to delegate responsibility for understanding the financial fundamentals, nor for grasping other issues that could affect financial performance.

Assess risks

It will therefore be essential to install a first-rate risk assessment mechanism throughout the company, one that alerts chief executives and their senior teams not only to financial risks but political and regulatory risks, security risks, environmental risks, and additional risks to a company's reputation.

A number of systems can help, but CEOs must also surround themselves with colleagues who represent a diversity of experiences and views willing to challenge prevailing policies and new decisions.

Cut costs

Another distinctive feature of the landscape is the difficulty of raising prices in this hyper-competitive environment. Many industries suffer from overcapacity, and important parts of the world – especially in Asia – are witnessing price decreases bordering on deflation.

In this situation, the challenge of achieving profitability will place a premium on CEOs who are skillful cost cutters. Savings will come from raising productivity, outsourcing more services, partnering with other companies who can provide certain comparative advantages, and/or shrinking the workforce.

In telecommunications, airlines, automobiles and financial services, we are seeing just the beginnings of a massive, prolonged and painful restructuring that could last many years. The talents that will be required for these efforts will be much different than those in demand during the business boom, when growing bigger and faster was the key imperative.

Going public

But the most difficult change for business leaders will be to become more publicly engaged. I don't mean more lobbying, although that is inevitable. Nor am I advocating more financing of political campaigns, a pernicious activity that drags down all companies. I am talking about making contributions to public policy over and above pushing only for one's own company or industry.

In the 1980s and 1990s, there was an assumption, most prevalent in the U.S. but gaining ground elsewhere, too, that the sole focus of CEOs should be to boost share prices. And the benchmark for measuring CEO success was meeting ambitious quarterly targets not-so-tacitly agreed between CEOs and Wall Street analysts. By implication, this assumption was based on another: that government should be smaller and that

to an increasing extent the arbiter of what was good or bad for society would be determined by market outcomes. Sometimes this philosophy made sense, as in freeing up markets in countries like China, India or Mexico so that the private sector could expand its investments. Sometimes laissez faire was pushed too far, as when American investors were led to believe that the stock market was the best place to put all of one's assets for retirement.

New shift

But one thing was certain – business leaders appeared to be absolved of most public responsibility. Their job was to fatten the wallets of shareholders now.

This ethos needs to change and in fact it may already be changing, albeit slowly. The collapse of the Internet bubble underscored the fact that the knowledge embedded in markets is highly imperfect at best. The September 11 terrorist attacks made us realize that there are more important things than just the accumulation of short-term wealth. The breakdown of corporate governance showed that the integrity of markets was not all we thought it was.

Taken together, these events ought to raise the importance of thinking about the "public interest" in a more intense way than has been the case during these past two decades of market exuberance. Business leaders should not be immune from this shift in mindset, nor divorced from it.

Public agenda

What might a "public agenda" for CEOs look like? Let me give a few examples.

Homeland security: Discussions about fighting terrorism within the U.S. have yet to take adequate account of the fact that 85 to 90 percent of the nation's assets are owned by the private sector. Business and government leaders ought to be thinking about an unprecedented partnership to build the kind of security system that preserves to the maximum extent the open markets.

CEOs and public officials must together sort out a number of complex issues: how to plan for and react to crises; how to create limits to private sector antitrust liability for intra-industry security cooperation; how to design market-friendly regulatory systems. To these ends, the involvement of business leaders is essential.

Corporate integrity: The crisis in corporate governance is still in its early stages. Thus far, business leaders let legislators and regulators set the reform agenda.

The time has come for CEOs to climb out from under the table and to take the agenda from here – unless, that is, they want to see another wave of regulation. There is much for them to do. For starters, they can restructure remuneration so that CEOs are at risk for bad performance. They can take seriously the restructuring of boards so that independence is a reality. And they can make sure that auditors do no other kinds of work for the same company.

Strengthening the domestic safety net: CEOs need to work more closely with Washington to take the hard decisions necessary to restructure the health care and retirement systems.

Ultimately the escalating cost of health and the insecurity surrounding pension plans will undercut the morale and productivity of the national workforce, and because companies have to pay part of both plans, profits will be eroded. Only a business-government partnership in these areas will work.

Building a stronger foundation for the global economy: Business leaders must press Washington to complete the new global round of trade liberalizing negotiations that began last year. This includes further opening the markets of the U.S. to products from developing nations.

New arrangements must also be established for a host of international issues for which there is no adequate global regulatory foundation such as anti-trust, food safety, securities trading, intellectual property, and environmental sustainability. CEOs need to be at the table when these rules are devised – unless, that is, they want to see government bureaucracies, with inadequate knowledge of markets, do all the work.

Chief challenges

From the standpoint of society, a big question is whether business leaders are equipped – by virtue of experience, education and temperament – to be great leaders of companies and also think about their

contribution to the public interest.

The answer, I fear, is that few are. But if there is a public clamor for a different kind of corporate chieftain, then one will emerge, for they will be judged on a broader range of criteria than is now the case.

There is an expression that war is too important to leave to the generals. Might it be true, as well, that in a world in which market-oriented systems and policies are so valued and in which there are no better alternatives, the making and shaping of business leaders cannot be left to the CEOs?