

Point of View

Short-Term Thinking in a Long-Term World

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Recent reports indicate that spending on research and development by U.S. companies is decreasing while foreign firms increase their R&D efforts. These reports sound an alarm bell for the future of our nation. If the current recession has taught us anything, it is that we cannot focus on immediate profit to the exclusion of long-term success without risking our jobs and prosperity.

U.S. businesses need to be responsive to short-term challenges and opportunities, but they cannot survive over the long haul unless they also pursue new technologies and innovation. Development of the heart pacemaker took 32 years from concept to realization. The video tape recorder took only 6 years to evolve, much faster but still beyond the current planning horizons of many of our companies. It is no wonder that foreign competitors often cash in on these advances.

Some U.S. firms, such as those in the pharmaceutical, aerospace, chemical, and food industries, have become adept at deliberately pursuing and profiting from long-term innovation. However, a committee that I chaired recently for the National Academy of Engineering reported that a shorter-term focus too often remains the norm and a major source of competitive disadvantage. The recent R&D figures from

the National Science Board are subject to differing interpretations, but other data indicate that U.S. firms spend relatively less than their foreign counterparts on new equipment, machinery, and nondefense-related R&D. Corporate executives, who report to stockholders, can be encouraged to take a longer view. At present, however, they are often rewarded for acting shortsightedly.

Imagine that you are a business leader deciding whether to start a new product development that could help your company beat its foreign competitors. Initiating the project will reduce profits this year and thus cut the size of your own performance bonus. It would take a person of considerable vision—or wealth—to accept such a personal loss in favor of the company's long-term vitality. Yet that is precisely what many executives are expected to do. They are given little incentive to commission research or other initiatives likely to blossom after they retire. Their salaries and reputations are based only on their current accomplishments.

For the sake of millions of American stockholders (and workers), corporate boards should develop compensation plans that induce their executives to adopt long time horizons. How? Managers might be given stock options that cannot be exercised for several years, incentives tied to long-term company performance, and penalties for cashing out sooner.

More sensible compensation packages are only part of the solution. Firms should also pursue "patient" investment capital to give themselves more flexibility. They should take advantage of joint ventures that spread risk among several players, making

it easier for all to pursue untested innovations.

On a national level, we need to lower the cost of investment capital. Potential measures include cutting the federal deficit, reducing capital gains taxes and "double taxation" of corporate profits, and promoting personal savings. The federal government should improve the efficiency of its regulatory, patent, and licensing procedures.

Although the recent R&D figures are sobering, there are signs that at least some companies are getting the message. At a recent meeting of a corporate board on which I sit, someone suggested that the company's R&D budget should be reduced. A fellow board member replied indignantly: "What do you mean, cut the R&D budget? If you try to increase earnings by doing that, you're just liquidating the company!" That remark was one I had never heard before at a board meeting.

Nor, until recently, had I heard board members ask to review the firm's research budget or an employee take time to describe some new factory machinery. In the past, discussion rarely got beyond financial matters.

There is reason to hope, therefore, that some companies are finally focusing on these nuts-and-bolts concerns involving technology, quality, and the shape of the future. Whatever the federal government does, our country's prosperity depends on more of our firms extending their investment horizons still further. We have learned the hard way that a relentless focus on short-term profit is a shortcut to failure in a long-term world.

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