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Sunday Business Section
Collection of Essays
by Richard J. Mahoney

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Since *The CEO Series* began in February 1996, we have featured original essays written exclusively for our readers by leading CEOs on a wide range of topics—some 33 issues in all. For this month only, we will depart from that practice of using only original, unpublished essays.

Here's why: *The New York Times* has recently discontinued its Sunday Business Section essays "From the Desk Of" and "Viewpoint"—the former were personal business experiences and the latter, business policy op-eds. I wrote a number of essays for both columns as seen from the vantage point of a CEO, and have decided to reproduce them in this issue as a short collection since they capture the intent of our series: The voice of the CEO. We will return next month to our usual format of "original essays by CEOs written exclusively for *The CEO Series*."

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Attention, I.R.S.: Send Us a Bill, Itemized

It was the time of the month for paperwork. He checked every item on the $650 Visa bill to make sure it was correct. Likewise the phone bill. He even double-checked the deductions on his and his wife's paycheck stubs. Once, he had found an error in the amount withheld for Federal taxes, and it pleased him that the monthly tedium of checking was worth it. This month, the Federal withholding correctly totaled $833.33.

Together, Mr. and Mrs. Max Tax brought in $75,000 last year. The $10,000 they paid for taxes seemed steep when he filled out the tax form—but because the tax was withheld, they didn't really miss it. That's the beauty, the genius, of withholding.

Still, Max Tax occasionally brooded that he didn't know what he got for his $10,000. And he couldn't shop for a better deal. Nor did the Treasury appreciate his business—nary a "Thank you for your patronage" or a "We really appreciate your supporting our programs this year" ever graced their mail.

So why, he thought, can't the system by changed? Flat tax or flat-out tax, he didn't care—just so he and his wife could see what they were paying for. Instead of having the taxes withheld, they would receive their own itemized "Federal Expressly for You Tax Bill" from the Treasury, and then in April he could sit down and check it along with the other bills. He stopped to imagine how last April might have been different:

"Let's see what it looks like this year," he said, as a sheaf of papers popped from the envelope. "Wow, $1,371 for interest on the nation's debt—and that's $31 more than last year. Why don't they just stop borrowing so much? We did, after Visa hit us with $75 worth of interest last fall.

“And $1,381 for Welfare? What about *our* welfare? And that’s on top of what we already gave to the church, United Way and a dozen others. It says in the fine print that $172 of it was for food stamps. I sure hope it went directly for food.

“Now, here’s $22 for the WIC program, to give milk to newborns—I like that. Maybe the kids would get a few more cents’ worth of milk if Washington didn’t collect the money from us first, then skim a little cream for administration before sending it back here. But at least the kids are getting most of it.

“I see we’re sending our yearly payment for our civil servants’ retirement. Hmm, $243. Up from $234 last year. Well, maybe it means more retirees this year, and that’s a plus. I wonder whose retirement we’re supporting. Wouldn’t it be something if our $243 paid for a day at a swanky resort for the I.R.S. guy who audited us a few years ago!

“Wow—$2,169 for Social Security! Hope there’s some there for us when we need it.

“Here’s one I can really defend: $1,887 for Defense, down 88 cents from last year. But what’s this $2 for building and fixing up Army National Guard buildings? Oh, that’s the same amount the Air National Guard is spending on theirs. Can’t have those flyboys in newer buildings than the ground troops. Well, it’s small change in the big picture. Never can have too much defense.

“But if the Air Force really doesn’t want those B-2 bombers, why do they want us to pay for them? Wouldn’t it be cheaper to mail paychecks to the workers and not have to go through all that welding and assembling?

“Looks as though Commerce is up again. They’re hitting us for $24, versus $21 last year. It must be all those sales trips to help our companies get orders. But there is no line item in the Commerce bill for ‘sales services’—it must be covered in ‘export enforcement.’ Ten cents for that seems about right.

“And an Energy bill for $113. We got a lot of heat for that amount last winter. At least our outlay kept us warm. What does the Secretary of Energy *do* with it all? Oh, here it is in the fine print: $33 for atomic stuff. And in the really small print, there’s $1.27 for coal research and $1 for oil, gas and shale. Wonder why the coal and oil companies don’t do their own research? And I suppose international travel eats up a lot of Energy, too.

“Now, here’s the legislative branch. What a break! Only $18 for Congress to spend our $10,000? Doesn’t seem enough, although back in 1970 it was only $2.38. Of course, back in 1970 we only had a $3 billion deficit to manage and it probably took a lot more effort and cost to run up last year’s $203 billion deficit. Then again, I suppose you could say we now get a lot more legislative value for every deficit dollar.

"You know, I'm getting a little dizzy. Maybe it was better when they just took the money ahead of time. But it does make a person proud to know all the things we're able to pay for. And next year, it looks as if we can be even prouder! I hear we're scheduled to pay $10,236 in taxes.

"Sure hope at least one of us gets a raise."

Learning, All Along the Way

In the spring of 1962, when I was 28, I responded to a job ad in The New York Times for a "new product development specialist" at a Monsanto Company subsidiary in Springfield, Mass. By August, I had resigned from my old job in a town across the state, sold our house at a loss, turned in my company car, taken a cut in pay and taken up my new career.

I had become reasonably proficient as a technical sales representative in rubber products, but wanted to learn about marketing. And the new job was in the magic field of plastics, although well before "The Graduate" let Dustin Hoffman in on the secret. A bonus was respectability—after many moves, we might stay put long enough to get into the telephone book.

It really sank in then that maybe jobs weren't forever. So I decided to improve my LIFO odds by switching … to FILO.

But before the new phone book came out, I learned about "lifetime job security." An edict had come down from the parent company: "Costs are too high—cut people." Our unit had to downsize by one person, although "cut one headcount" was the crass term that Personnel used then, before its title was upsized to Human Resources.

Local management decided that the fairest way to cut would be to use our inventory accounting method, LIFO. Unfortunately, I was Last In, so would be First Out.

While considering my options, I received a reprieve. Another employee, far more marketable than me, resigned to take a better job elsewhere. I was spared!

It really sank in then that maybe jobs weren't forever. So I decided to improve my LIFO odds by switching, as some companies had done with inventory, to FILO. I would be First In in the morning and Last Out at night. By 1969, I had moved to the parent company headquarters in St. Louis, just in time for another mandated cutback. Fortunately, this time the cutback didn't have to be people; management could slice overhead costs by 10 percent however it chose.

My unit's managers ingeniously reclassified part of my growing enterprise from "direct cost" to "overhead" and then closed it down, meeting their target. Sort of a neutron bomb strike in reverse—the buildings disappeared but the people stayed alive, with new assignments.

By then, I knew that just shuffling the accounting alphabet was too risky: I could lose my job, and my family was growing.

I chose a new strategy: M.V.P. I would be the Most Valuable Performer by learning jobs throughout the company, and so always be transferable. That would also give me a Most Valuable Profile—a hot résumé—in case I had to enter the job market.

Indeed, I began to work with more confidence and, modesty aside, more skill. Promotions came fairly regularly. I moved from the comfort of plastics to consumer products, then to chancy but fast-growing agricultural products. Our family got into a few telephone books, but all with different area codes as I moved among these units. Still, corporate life was good to me.

Only once again did I ever take stock of my career. In the mid-1970's, I considered myself a qualified candidate for general manager. But the company didn't seem to agree since all it had done for me recently was "shift my comma": my title had changed from Sales Director, Agricultural Products, to Director, Sales Agricultural Division. It got me an office window, though no new money or responsibility.

But after more than a dozen years with the company, I figured I owed it some patience for all I had learned there. I decided to look straight ahead, not up.

Remarkably, soon after came more windows and office-ceiling tiles than I knew existed. "Just do it" worked. And I thought that if that ever stopped working and I had to move on—well, the company had been very generous in helping me take charge of my own career and made me more marketable. So our "contract" was a fair deal.

As it turned out, the contract lasted 33 years—and, oddly enough, today I have an unlisted telephone number.

If all this sounds like advice on the new workplace contract in a downsizing era, so be it. I've seen the contract from the other side, too, as Monsanto's chief executive for 13 years, and that only reinforced my thinking. Over that time, we remade the company with billions of dollars of asset sales and acquisitions, and, as we moved from a labor-intensive commodity company to a high-tech operation with fewer people, we tried hard to do right by our people. But as I wrote in a letter to employees when I announced my retirement—after discussing how good I felt about our progress together: "If I have any regret—and it is a profound one—it is that we've had to reduce the number of employees over the years. We've tried to explain the worldwide competitive pressures that made it necessary. We've tried to do it mostly with voluntary employee elections with programs as generous as we could make them. Nonetheless, I agonized over it because it was for many people a difficult election."

Obviously, my agony is of no interest to anyone unless it helps balance the new contract. With change being the only constant, companies, in my view, have at least three obligations in the new contract:

- They should provide every training and experience opportunity that employees can handle, to make them both more valuable to the company and more marketable if the time comes.
- They should dump pay scales built on the old Army concept of "four to seven tanks reporting to the captain." Of course, flattening the organization chart by having more people report to fewer bosses means fewer opportunities for moving up. But pay scales must recognize that employees have taken much greater responsibility for self-direction—to the company's benefit.
- Compensation policies should recognize that individuals' pay increases are likely to come only from merit rewards in current jobs. With fewer rungs on the job ladder, companies must take a new look at the size of merit raises. Or, better yet, with fewer people to pay, management should provide more generous payouts for excellence.

The employer's part of the contract, then, *is* new. But the employee's part of the bargain is less changed: take control of your own career by learning new skills and doing your job superbly, for your company and yourself. The skills and performance record will be invaluable in any job.

Somehow, that new contract, on the part of the employee, sounds suspiciously like the old one I knew.

Stopping a Tug-of-War Over Science

Science is frustrating business for those who practice it. Conclusions are often reached by interpreting conflicting data and resorting to the logic of a "high probability" of being right. The public hates that uncertainty, especially when seeking definitive answers to questions that might affect people's health or the environment. Scientists also wish the uncertainty wasn't there.

So, too, do business executives. They must listen to the same equivocation about the possible effects of products or processes and then say, "Let's go with it" or "Let's go back to the drawing board."

When "let's go with it" turns out to be the wrong decision—when the high probability turns out to be not high enough—there is hell to pay. And lots of people, both suppliers and users, may pay it.

For a product with trivial benefits, the correct answer is to act only when there is virtual certainty of no adverse effects. But when potential gains are substantial, as with an important new drug or a breakthrough consumer product, the delays in waiting for virtual certainty can be just as unconscionable as proceeding without addressing the risks.

Over the years, regulatory processes and internal company controls have struck a reasonable balance between progress and risk. But regulatory approval of a product does not necessarily mean public acceptance if opposition groups mount campaigns against it. There are vast opportunities for better serving the public if the advocates on both sides—the product suppliers and those who propose to represent the public—discuss the issues, sometimes even before the regulatory process begins. They can examine the benefits and the limitations of science, what is known and what is not knowable. Of course, producers shouldn't use those limitations as an excuse for failures, and opponents shouldn't use them to say "gotcha."

There are vast opportunities for better serving the public if the advocates on both sides discuss the issues, sometimes even before the regulatory process begins.

Scorched-earth combativeness by either group no longer assures success. Both sides are now too skilled in their advocacy to gain much advantage. But those same skills, applied collaboratively to real public advocacy, would pay dividends.

Some business people argue that discussions during a product's development stage give the potential opposition an early opportunity to marshal its forces. A telling cartoon once showed a painter on a billboard, writing "Introducing the New..." Before the painter could finish naming the product, opponents waiting on the ground unfurled their own incomplete banner: "Ban the. ..." But there is much to be gained by painting from the same brush, by learning from each other without assuming evil intent.

Companies are not foolish; they know that to be successful, their products must perform and give value. They must also take into early account the views of those who ultimately must approve.

Few pharmaceutical companies, for example, would embark on a several-year clinical trial toward Food and Drug Administration approval of a new drug without consulting the F.D.A. about the scope of the trial.

Likewise, consumer products companies would be unwise to introduce unfamiliar technology without market testing. It is not a long stretch, then, for business to ask for the views of the "shadow approvers," those who may rise later in opposition, with the results as potentially devastating as the failure to receive regulatory or user approval.

In the past, these requests did not prove very profitable. As a recent chief executive of a leading science-based company, I well remember asking a vocal opponent of agricultural biotechnology to come learn about our programs some seven or eight years into their development, a few years before we were ready to submit the data to the Environmental Protection Agency for approval.

"Very promising work," she said, "but it needs more research so we can all feel comfortable."

I asked her how many more years of tests she thought would be needed.

"Oh, about 15 or so," she said.

"And why is that?" I asked, stunned by her answer.

A smiling nod was my only clue to the real agenda: stopping the programs regardless of what she heard.

Recently, however, there have been promising signs that some companies and consumer advocates are recognizing that hardened viewpoints no longer make sense. The public has become more confused and less trusting of opinions on all sides. The time is ripe for détente—a recognition that maybe, just maybe, there are insights to be gained from listening carefully to each other's views, that flexibility doesn't necessarily mean caving in.

In some industries, particularly those in consumer products, some fledgling efforts at collaboration are under way. But progress has been painfully slow as motives are still often treated with much distrust.

Collaboration, however, works to everyone's advantage. There is much to be gained from mutual understanding of the frailties and benefits of science—from understanding the gaps in the data, but agreeing on the chasms of need that science can help fill.

Sound Bites From the Boss

As Election Day draws near, I've been thinking that some of my former colleagues in the corner offices of America's biggest companies may have heard one too many speeches from the men vying for the Oval Office. If so, here's how one such chief executive's annual State of the Corporation Message might sound:

My Fellow Shareholders:

In my election this year as your chief executive, you rewarded me with a mandate of nearly half of your proxies. Some of you may recall my earlier threat to retire unless I received a majority of the votes. That is inoperative. I now pledge to end "farewells" as we know it.

Also inoperative is my former statement of "no new write-offs," which some people disingenuously say I gave only lip service to. In light of decreased revenue enhancements, a paradigm shift to "not too many new write-offs" seems prudent.

Of course, you will recall that the Internal Revenue Service voted down our promised tax cut for all divisions earning less than the median for their peer group. As we've learned, this doleful I.R.S. crowd doesn't give in easily to middle-of-the-class tax cuts.

But that's history. The outlook is, well, more promising. Which brings me to my vision—things I am doing left and right.

- We will provide dividends well above our cash-flow deficit. Management is proud to report that we have increased dividends in excess of receipts for 26 consecutive years.
- We plan to cut costs to balance expenditures and revenues. The cuts are being detailed for announcement in the centennial year 2000, as the centerpiece of the celebration of my 65th birthday.
- To respond to shareholder voices urging control of employee entitlement costs, I am pleased to report that our distinguished director, Mr. I.M. Ponzi, chairman of the pension fund committee, suggests that to enhance our "family of employees" values, we should increase pensions beyond what we have accrued for, by raising the rate-of-return assumption for the pension funds. And some people say directors don't earn their pay!
- Furthering our long-term view, we plan to increase new product development, while reducing R & D. This will be done by eliminating unsuccessful research *in advance*—a direct result of our campaign of "re-inventing the corporation."
- As your chief executive, I will reduce our trade deficit by producing more of our products overseas. This will also put real teeth into our diversity program for foreign employees. You should also note that I chose the American-made Gulfstream for our corporate jet fleet, over Canadian and European proposals.
- We plan an innovative program for our operating divisions. On a trial basis, we will take a small portion of the cash that these divisions remit annually to the corporation and return it to them in a block—a kind of grant for their own uses, because they occasionally seem to spend it more wisely than we can do on their behalf. Some have suggested that we leave *all* the money with them rather than sending it to corporate headquarters for a first skim. For our response to that, see section 8 of the proxy: "Reasons we borrow for the dividend on your behalf."

- As I've said faithfully over the years in the requisite last paragraph of the shareholders letter, "Our employees are our greatest asset." To increase the return on these assets, we have decided to reduce the denominator of the equation—employees. As our vice president for human resources likes to remind us, "Corporations don't create jobs—government does!"
- While I seldom rely on pollsters, you deserve to know some recent findings. In reviewing competitive salaries, they found that my performance last year exceeded the norm for my pay. Some have suggested that I reduce my performance, but that would be the wrong thing to do! Accordingly, see proxy paragraph 501(c)(3), "Miscellaneous Financial Transactions."

As you judge management in the coming term, remember that I am a man of hope—forged in strong heartland principles. I'm in favor of values for my family. I stand for ending big corporate governance as we know it. I stand for free trade, local content laws and tax breaks for exports. I pledge very full employment for those still on the payroll. And I stand for improved corporate infrastructure. Therefore, I pledge to bypass third-rail issues, and you will hear no discussion of building bridges where there are no rivers.

As shareholders of this great company, you are entitled to the best management money can buy. If there are other things that will enrich your lives and govern your proxy choice next year, simply fill in the requests in the blank space provided on your proxy ballot.

My fellow shareholders, never fear to ask what your company can do for you.

A Sudden Sage on Soft Money

A few weeks ago, The New York Times published my letter to the editor on the subject of soft money—those unlimited contributions that go to political parties for "party-building" and "good-citizen" activities and other uses. Much of the money, of course, has wound up circumventing the limits on political contributions to individuals, by being used for advertising that trumpets all of a candidate's slogans while never specifically *naming* whom you should send to Washington. But if the ad says, in effect, "when you care enough to send the very best," you know what the sponsor has in mind, even without the brand name.

Soft-money contributions were soaring as I wrote my letter, but I knew that they weren't being made without some concern on the part of the corporate contributors. As I wrote: "Not long ago, I participated in a meeting of corporate chief executives in which it was suggested that we pledge, as a group, not to give to this category of political contribution. The idea was that we could therefore not be singled out individually as nonparticipants." I concluded: "We should stop the corruption caused by soft money. Simply say no, and write laws to ban it." And the mood, I noted, was there to stop it.

The letter was published on Jan. 30. Soon thereafter, a journalist from another newspaper called to interview me for a series on campaign finance reform and the outrage over soft money. Then National Public Radio called. Would I answer for broadcast their questions on campaign contributions in general and soft money in particular? I would and did. Then a television network news program was interested. And some of my chief-executive friends called in approval of my position.

Suddenly I was hot property. Why? Because, as a recently retired chief executive, I was presumably still au courant, but thought to be removed from the risk of alienating elected politicians by talking about soft-money contributions. I was told it was hard to get media interviews with chief executives on the topic.

When I was an active chief executive… I simply banned the contribution of unlimited soft money. Yet I still usually got political access when I needed it, assuming I had something important to say.

When I was an active chief executive, the company's political action committee and individual employees gave within the legal limits to specific candidates, but I simply banned the contribution of unlimited soft money. Yet I still usually got political access when I needed it, assuming I had something important to say. And we especially got the ears of our representatives if we had the *real* mother's milk of politics to open the door—not money, but lots of calls or letters from concerned grass-roots employee-voters.

Still, it is not surprising to me that companies that feel the need to contribute soft money don't want to take the political risk of trying to fix the system. A telephone interview on the subject between a chief executive and a journalist could be revealing:

Q. *Do you like to give soft money to politicians?*

A. Yes. In fact, just this morning I woke up and said to myself, "I think I'd like to send $50,000 to Michigan for noncandidate party-building." Are you serious?

Q. *Then why don't you just stop giving it?*

A. Great idea. We quit and the labor unions and self-appointed consumer groups keep it up. That's like unilateral disarmament. Noble but very risky. It's not even up to Reagan's standard: "trust, but verify."

Q. *O.K., but why then don't you work to get a piece of legislation to stop it?*

A. Another good idea. Stay with me on this. Let's say I call my senator: "Now, Senator," I say, "I know you hate fund-raising and have said so publicly. So I'm going to support a Federal bill to give your no-name opponent TV access equal to yours. And, by the way, there's a stupid piece of legislation floating around that could affect my company. I'd like to have my Washington rep see your staffer on this... Senator? Senator? Are you there? Senator?"

Q. *O.K., but doesn't business have a moral obligation to stop this soft-money abuse? Why don't you, as a chief executive, take the statesman's view?*

A. All of you want government in on every detail of corporate life. You want to embroider every aspect of it with laws and regulations. Then you are surprised that companies are willing to make political contributions. I'm reminded of Captain Renault in "Casablanca"—you are "shocked, shocked" that companies, especially big business, are willing to contribute in the hope of getting a seat at the table, a chance to be heard when the big regulations that vitally affect us are written. You can't have it both ways. If contributions are needed in order to be heard in that centralized morass, we'll have to make contributions. It's that simple.

Q. *But as a chief executive, where is your sense of patriotic obliga... Hello? Hello? Are you there? Hello?*

Fresh Air or Windfall?

Watching the TV coverage of the news conferences for the newly announced co-operative program to balance the budget was a curious, and then maddening, experience.

It didn't matter on which side of the aisle you stood. The deal was great. You could, as did President Clinton and the Democrats at his side, embrace it as "a historic agreement that will benefit generations of Americans." Or equally ebulliently, you could trumpet along with Trent Lott and the Republicans he leads in the Senate, "Today we celebrate the beginning of a new era of freedom."

Say what?

Only in Washington could the deferral of problem areas like the coming explosion of entitlement spending in Social Security and health care be cloaked in a "designer pork" tax cut permitted by unexpectedly high tax receipts and then hailed by Vice President Gore, during his moment in the limelight, with the flourish, "Promises made, promises kept."

As I watched, the images on each podium melded into that of the beleaguered chief executive whose company is burdened with a massively underfinanced pension liability for current and coming retirees, an employee health care obligation heading for the stratosphere and a financial balance sheet needing emergency room triage without an insurance card, much less a credit card, to get past the admissions desk.

And he's addressing the shareholders to explain the latest plan:

"My fellow shareowners, in collaboration with the Shareowner Watchdog Committee, a group I welcomed in partnership, we have put our fiscal house in order.

"Today we announce a historic agreement. No more 'we versus them' and no more of those tiresome sacrifices. In fact, because of new sources of revenues, we will not have to decrease dividends; we are, in fact, increasing them. Not across the board, of course, but our 'preferred' shareowners will be very happy. And you'll all be happy to know that we have been able to put off the restructuring that some have called for.

Only in Washington could the deferral of problem areas like the coming explosion of entitlement spending in Social Security and health care be cloaked in a "designer pork" tax cut permitted by unexpectedly high tax receipts.

"Now, some of you have unkindly labeled our dramatic increase in revenues as a windfall that shouldn't delude us into halting our belt-tightening. I prefer to think of it as a steadily blowing wind at our backs—a new air of freedom, to coin a phrase. Or at least to borrow from our government counterparts who saw 'a new era' ahead when they likewise got a tax windf ... ah, new revenues.

"Of course, we knew about our (what I'll call) new money, but decided to let it be a positive surprise since most of our recent news has been, shall we say, 'somewhat negatively challenged.' Call it what you like, we're blamed for the problems, so we're entitled to credit when we get a windf ... ah, turn in our fortune.

"I am also pleased to announce that my designated successor, your chief operating officer, has a secret plan for future liabilities. But the C.O.O. is such a fun guy that he'll probably surprise us all with it at my retirement roast in 2000! Then again, it might yet be a feature of his retirement roast in 2008!

"It's really a wonderful time for our company and for me personally. I always was a builder, a tops-down, go-for-it guy. These last few years of financial heat were not my style, and thank goodness they're over. Let the good times roll!"

Unshackling Corporate Profits

The recent stock-market turbulence has alerted those millions of workers who save for retirement in 401(k) plans that corporate earnings matter.

Many financial journalists have been reminding their audiences that despite the upset in Asian markets, they should ride out the storm and look to the long term, because the American economy is strong and corporate earnings remain in reasonable shape. Individual investors have listened and, for the most part, have avoided panic selling.

Sooner or later, it will be apparent to the public that American corporations are increasingly becoming vehicles that take inputs—materials or information—add value to them and pass the resulting earnings through to their stock prices and, ultimately, to retirement security. That is because retirees and those nearing retirement now own more than two-thirds of all listed stocks through pension funds, mutual funds—including 401(k) assets—and individual holdings. Employee insurance plans are also substantially backed by corporate equities and debt instruments.

When Americans become fully aware that corporate earnings are important to their own security, there may well arise grass-roots support and pressure on legislators to stop imposing profit-draining costs. These hidden blows to retirement security come in many forms: laws and regulations that are not cost effective; trade sanctions levied on individual companies that cost them sales and earnings but hardly ever punish or reform the intended target nations; social programs that do not meet the test of a tight Federal budget and are imposed on employers, constituting a hidden tax on earnings; a costly, out-of-control tort system that the Government refuses to rein in; and others.

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Their cumulative effect on retirement security can be substantial, given that $1 of earnings per share has historically translated to $15 or more of stock price. (Recently, it's been over $20.) If retiree groups like the American Association of Retired Persons were truly representing the interests of their members, they'd use their considerable influence in Washington to argue against these unnecessary and unproductive impositions on corporate earnings.

Stock fund managers and analysts correctly spend much time examining companies for excessive internally imposed costs, represented by corporate waste or bad judgment. If similar analyses were made of the effects of externally imposed costs, the findings would be a powerful case for reform.

For example, I once surveyed companies about the cost to earnings from out-of-court settlements of punitive damages in product liability cases. These penalties, routinely sought by plaintiffs, often bear no relationship to the actual injury. The survey responses from just a few dozen companies showed that they paid $4.3 billion in such settlements over five years.

The Institute for International Economics, meanwhile, has estimated that in 1995 alone, Government trade sanctions imposed on exports in an attempt to influence our trading partners' behavior cost American companies up to $20 billion in lost sales.

And the Center for the Study of American Business has estimated that in 1996, the economic cost of Federal regulation was $677 billion—though, of course, a portion of that did bring societal benefits. But in a highly competitive global economy, American companies have less ability to pass along these regulatory costs through higher prices. When the costs must be absorbed through lower earnings, and hence lower stock prices, the pass-through cost is to retirees' security.

A few weeks ago, I heard a caller to a radio program's financial panel ask about the potential effect of the common European currency on her rather modest 401(k) plan. A panelist told her not to worry, that it's corporate earnings that really count. He should have added that she should also ask her elected officials to think a little more carefully before passing laws that cause leaks in the ship that she's counting on to come in when she retires.

Shareholder Value: Sorting Out the Voices

I recently heard a reporter on one of the TV business shows intone authoritatively that shareowner value was increasingly the watchword on Wall Street.

When wasn't it? In 1983, when I became chief executive of the Monsanto Company, I asked myself, as many newly minted heads of corporations do, just whom I represented—employees, customers, shareowners, society?

A voice sounding suspiciously like the economic guru Milton Friedman thundered back: "Don't ever forget the voice of the shareowner, or they'll forget you! Listen to the shareowners—they own the company."

So I went to New York to visit those who purport to represent the voice of the shareowners, the financial analysts of the major stock brokerage firms. These people *knew* shareowner value and advised the portfolio managers—the stock pickers—which companies were likely to give the most of this mother's milk of Wall Street.

I can still recall ending my analysts' speech with the statement that "90 percent of whatever personal financial prospects I have are tied up in the value of our stock, so I care about long-term shareowner value."

My phrase was quickly parsed by the audience. The word "long-term" caused some of them discomfort because, in their world of shareowner value, the future is now!

Over the next several years, we made expensive scientific bets for the 1990's and beyond in the emerging field of biotechnology, as applied to agriculture and pharmaceuticals. During that period, we were fortunate that our older businesses performed well most of the time, so the stock price did fairly well. A number of analysts supported us through the long period of product development and regulatory approvals in the new fields. Many other analysts, however, howled that the investment was profligate spending, with the payoff years away, if ever. To be sure, like any new research, ours had its ups and downs, yet it generally stayed on course for a promised payoff starting in the mid-90's.

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Still, the naysayers offered a constant drum-beat of advice: reduce R & D, sell off any asset that wasn't nailed down and use the cash proceeds to buy back shares so the stock price would rise. I suppose the logical extension of that advice is to sell off everything, buy in all the shares and turn off the lights.

After several years of our R & D, one prominent analyst said the agricultural biotechnology investment was a complete waste that would never pay off. Today, he does elegant, detailed analyses for his clients on the excellent earnings coming from "this hot new biotech industry in agriculture."

The products of a dozen years of biotechnology investments are now entering the market—and creating real shareowner value in the stock price. These gains are a result of steady R & D financing and product development, as well as some luck and wise commercialization moves made by the management installed three years ago, on my retirement.

Interestingly, our largest shareholder through much of this period shared our long-term view, and with others, profited handsomely as the products started coming onto the market. It is probably no surprise that when I had money to invest after retirement, I placed a good deal of it with that investment firm.

In a dozen or so years as chief executive, I learned to value and consider the views of all the stakeholders: employees, customers, neighbors and, indeed, society in general—all of whom provide the license to operate. And one had better listen to the voice of the shareowner; that's a given. But whose voice is that?

The voices that purport to speak for shareowners must be screened for the validity of their advice. Missing analysts' earnings forecasts will get a chief executive plenty of bad ink, but slavishly following such a voice is likely to generate short-lived elation. As "Listening to Prozac," the former best seller by Peter D. Kramer, implies: It feels good until it wears off.

The truth is that you have to listen to all the advice, but then do what you and the directors feel is right, recognizing that sooner or later, preferably sooner, you'd better *be* right. That thundering voice I heard as a newly anointed chief executive was correct: Don't ever, ever forget the shareowner. But, I'd add, listen to that voice with discernment.

On TV, a Backdrop Is Worth a Thousand Words

Like many other chief executives, I was media-trained. I did lots of speeches and press, radio and television interviews. I knew the media—or so I thought until one day a few years ago.

The call came around noon. A national network evening news program wanted to feature my company as an exemplary environmental leader, contrasting us to many others that, as the network put it, "didn't seem to care that much." The network wanted to interview me, and I quickly agreed—I was proud of my company's record. A well-known TV face was in St. Louis on another story and would do the interview in a couple of hours.

The corporate public relations staff was already in high gear. "We need to rehearse and work on our message," I was told.

"No," I said. "I'll just wing it, and, besides, I'm kind of busy right now."

By coincidence, I was also meeting that day with a highly experienced Washington political consultant on a public policy issue. He overheard the conversation with the distraught public-affairs person and asked, "Where are you going to do the interview?"

"Well, right here," I said.

"Here? In this fancy wood-paneled office?" he asked. "You're going to be seen as a paragon of environmental virtue? I suppose you'll flash your cuff links to show how down to earth you are."

"O.K., so what do you recommend?" I asked.

"Get out of the paneled office and get your coat off."

We walked outside, to a wooded area near the headquarters building. "Here's a bench with lots of trees behind it," he said. "You'll look environmental in this spot."

The network face arrived about 3 p.m. I suggested the woodsy location, but he wasn't happy. "No way," he said. "Too bright, lousy camera angles, bad shadows."

My Washington handler called me aside. "Hmm, evening news," he said. "He has to get the story on the way right now, or he'll run out of time. Hold your ground. He'll give."

I held; the face gave.

But the face then faced me into the sun, so he had nice reflected light on himself while I squinted.

His lead-in question: "So why are you considered Mr. Environment in an industry not known by that kind of behavior?"

I drew on instincts—and a line I had used once before, but no less sincerely: "We want to be part of the solution, not part of the problem."

> *The reality is that television, even so-called hard-news coverage, is often about imagery, about perceptions.*

The face asked a number of related questions, and at some point my handler whispered to me, "Give him the same answer—it's a good one, and he's stuck for time."

The face finally said in exasperation: "I keep asking questions, and you keep giving the same answer."

But at last he said: "O.K. gang, wrap it up! We have to fire it back to New York. Now!"

At home a few hours later, my wife greeted me. "You were on network news tonight," she reported.

"How was I? Did I say anything stupid?"

"No. You looked good. You were sitting on a bench with trees all around, and it was something about how your company was an environmental leader. It was really nice."

"What did I say?"

"Oh, whatever it was, it was O.K., but the overall effect was trees, environmental leader, good company. It was nice—very flattering."

Fortunately, my handler had happened to be there at the right time, placing me in a photo opportunity that was just right. Was the overall effect staged or just an enhancement of reality? Did I fit the positive image I portrayed on the news? Was it right to do it this way?

The reality is that television, even so-called hard-news coverage, is often about imagery, about perceptions. It's Ronald Reagan and, later, President Clinton, at the beaches of Normandy. It's the orchestrated backdrop for any number of politicians with a message in need of visual impact because the words don't have substance or the public doesn't listen very carefully. It always seems that imagery drives out substance—and a sophisticated viewer needs to understand the difference. But I do have some sympathy for the politician who feels driven to use these techniques—they work.

As for my bit of imagery, I must acknowledge that I rationalized the staging and my statement with the observation attributed to Henry Kissinger: "It has the added advantage of being true."

Now, if there was just some way to soften a lousy earnings report with a nice background shot.

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