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Are We "Listening to Prozac"?

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In 1983, I became the CEO of Monsanto Company. I had been president and chief operating officer since 1980 – often thinking I was *really* running things – but I wasn't. I could lob ideas, however contentious, over the transom to my predecessor CEO, but he had finally to deal with all the implications and decide.

Now, in 1983, it was *me* and they were *my* implications to deal with. Like many newly minted CEOs, I asked the eternal question: "Who is it I represent? Employees? Customers? Neighbors? Society in general?"

A voice sounding suspiciously like economic guru Milton Friedman thundered back in reply: "All of them and some more – but don't ever, *ever* forget the shareowners or *you'll* be forgotten. Listen to the shareowners – they own the company."

So I went to New York to visit the people who wrote about and purported to represent the shareowners' views – the financial analysts of the major brokerage houses. Of course, I had met most of them before, but never with the "Buck Stops Here" sign around my neck.

I had done my homework on the issues of most interest to the dozen or so people who would opine on whether or not I was delivering "shareowner value." Their conclusion would be broadcast to retail brokerage houses, to pension fund stock pickers, and to other institutional money managers. They *knew* shareowner value. As I learned later, the definition often was "no earnings surprises" and "the future is *now*."

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When I went, my message was simple:

Monsanto in the early 1980s was too heavily engaged in businesses that once offered value-added opportunities in upgrading oil to chemicals and plastics. The potential for profit had been slipping away as oil companies and oil *countries* increasingly had the incentive to do their own upgrading as oil prices rose. And engineering companies now offered made-to-order facilities about as good as ours — another former strength slipping away. We would move out of those commodities toward highly specialized chemicals and the emerging opportunities in the life sciences of agriculture, food, and health care, where our fledgling R&D investments in the young science of biotechnology would give us an edge. All in all, a pretty big change.

"We like the story, but. . . " read some of the analysts' reports at that time, in the mid-1980s. "Good to get rid of commodity chemicals, but take the cash proceeds from the asset disposition and buy in shares to run up the stock price — this would have fewer shareowners dividing up the pie." The added "but" was "don't invest the proceeds in life sciences acquisitions. After all, it's not even a stock category we can relate to. Or worse yet, don't invest the proceeds in long-term R&D with payoffs years away, if ever."

The constant drumbeat of advice I heard for years from some stock analysts was: "sell assets and buy in stock." The logical conclusion of that strategy, I suppose, would be to sell everything, buy in *all* the shares, and turn out the lights.

Still, the stock prospered with improved earnings, and a good number of the stock pickers in the big mutual funds and others liked the story of a makeover from commodity chemicals to a new generation of value-added products in the marriage of chemistry and biology. Despite the promise of the real payouts "sometime later," they profited handsomely along the way.

I had, throughout the period, been warning "the market" that the R&D payout would be long term since the life sciences products required years of invention, testing, and federal regulatory approvals. But we also knew, and were reminded constantly, that to earn that patience we needed intermediate earnings results, as well. Fortunately, in the mid-1980s, one of our older "star" products, Roundup herbicide, was ingeniously reborn by the agricultural division management in a startlingly successful expansion strategy for that great product. The acquired Nutrasweet brand prospered, and a revamped chemical group contributed solid earnings as well to carry us through the period of R&D investment in the new biological sciences.

Hindsight is 20/20

After five or six years of the R&D investment, one prominent analyst opined that the agricultural biotech investment money was a complete waste — it would never pay out. Now, some years later, he does elegant detailed analysis for his clients that shows excellent year-by-year profit forecasts will come to the company from the "hot biotech industry in agriculture." Since I no longer have to pay attention to his reports, I figure that if all he does is state what is already patently obvious, I might just as well flip a coin to get *even* odds on his stock picks or throw darts at a wall chart of possible prices if I want even more control over the outcome.

One needs to value and consider the views of all the stakeholders.

Other "voices of the shareowners" urged that we sell off our pharmaceutical acquisition which we had made to put us into that very attractive field for biotech products. Although the ag-biotech research was meeting all its targets, those "voices" were right to bring the criticism that our R&D results in drugs were poor — and had been for several years. I needed no reminder of that painful truth. In fact, I had just installed a new and dynamic head of drug R&D who I believed — at least hoped — could change our dismal commercialization record.

Last year, one analyst reversed his previously negative opinion about our pharmaceutical business, saying, "Who would have believed how much the new head of drug R&D could have accomplished in just five years?" I guess it never occurred to him that the new head was put in charge for exactly that reason — because he was capable of doing what he and his research colleagues finally *did* accomplish.

The products of a dozen years of ag-biotech and pharmaceutical investment are now entering the market. They are bringing real value creation because of the steady R&D financing, the innovative products that resulted — some luck — and the superb way in which the next generation of management, installed two or so years ago on my retirement, has made wise acquisitions and alliances to broaden the market opportunities for the inventions. Still, during this period, some who purported to represent the shareowners wrote about "the profligate spending on R&D and arrogant management which didn't listen to the voice of the shareowners" — meaning, of course, theirs!

Indeed, one analyst's report recently said, in essence, that "the new product pipeline looks superb — but it's too bad that they don't cut back on all that excessive R&D and add to shareowner value." He was apparently afflicted with the alchemist's dream of converting lead into gold — or perhaps not even investing in the lead at all!

Fortunately, there were more believers than skeptics. A substantial number of analysts rode out the peaks and valleys and consistently, indeed, strongly, recommend the stock. Our largest shareowner, an investment fund, liked the plan and stuck with it year after year, to their enormous advantage, as the stock rose both on an intermediate basis, and in the ultimate payoff. The fund manager's advice in meetings with us was instructive: "I don't care about your short-term zigs and zags — I'm looking for long-term results. While I don't have infinite patience — I need to see intermediate goals met. We'll continue our support as long as you remain convincing on the long-term goals." If only all shareowners had that view — "the Warren Buffet school of investing." Incidentally, when I had money to invest after retirement, I placed a good deal of it in the hands of that fund manager's firm because they did good homework, then stuck with their philosophy of taking a long-term view and not trading with the latest market whim.

The "voice of the newly activist shareowner" increasingly demands value – and deserves it.

What I have learned from all this over a dozen or so years as CEO is that one needs to value and consider the views of all the stakeholders — employees, suppliers, neighbors, indeed, society in general — all of whom provide the "license to operate." And one had better listen to the voice of the shareholder — that's a *given*.

But whose voice is that?

Decades ago in my company, before the stock was issued publicly, it was easy to answer. The founders of Monsanto, the Queenys, were the only shareowners and the only voices that mattered.

Then, in the takeover craze of the '80s, the shareowner's voice might often come from an "unmanned computer terminal," programmed to take a position in vulnerable companies based on various ratios — including excess funding in pension assets that might be tapped. In that case, shareowner value might mean shareowner opportunity to grab everything that isn't nailed down!

Who Is the Voice of Reason?

Today there is another frenzy, another defining era. Representing the 1990s version of shareowner value — it's less opportunistic perhaps, but no less demanding of results. The "voice of the newly activist shareowner" increasingly demands value — and deserves it. But when? Instant gratification — or long-term value?

The answer is: some of both.

Management in today's environment will generally be given the "luxury" of playing out a defined strategy, as I was. But only if it provides both short- *and* long-term gains. A several-year barren stock performance will increasingly bring direct pressure from large holders — as is their right. It's perhaps a bit more civilized than the behavior in the "Raider '80s" but no less forceful. And it requires more than just keeping the owners "sullen but not mutinous," while the strategy unfolds. Two-thirds of many companies, including the one I headed, are owned by institutional investors — mutual funds and others. These money managers have enormous pressures put on *them* to perform for the *real* owners — pensioners, 401k employee investors, and others. Those others include, importantly, our own company's pension fund which summarily dumps those money managers who consistently underperform in their stock-picking results. We, in effect, add our own voices demanding regular stock gains.

But the voices still have to be screened for the validity of their advice. Missing an analyst's quarterly or yearly forecast for your company's earnings will get you plenty of bad ink because you disappoint *them*. But slavishly following that voice is like "Listening To Prozac," as the former best-seller says — it feels good until it wears off.

The truth is that you have to listen to *all* the advice — sometimes the financial analysts, certainly that of the stock-pickers and holders — but then do what you and the board of directors feel is right, recognizing that sooner or later, preferably sooner, you'd better *be* right!

Interestingly, the newly active advocacy shareowner groups such as huge pension funds, are not telling you how to do your job. They're saying with the brevity of Nike's ad — just *do* it. Get results, and make sure that corporate governance and other practices are appropriate to look after *our* interests. Install demanding, unaffiliated directors who keep the heat on the CEO to perform in the best interests of the shareholders — long and short term.

In a number of conspicuous cases, the shareowner groups' patience ran out and the underperforming CEO suddenly "left the company to pursue other interests." So listen — listen to *all* the stakeholders. But beware of those who, too often, only offer the baseball manager's advice to the pitcher in a tight spot: "Don't give him anything too good to hit — but don't walk him." That kind of advice is cheap and worth the price!

Listen to All, Follow Your Instincts

There are dozens of voices with opinions, and too many are offering advice for instant gratification. (Lord, give me patience, and I want it right now!) Or they're stating the obvious: "Why don't they..." — a proposal so obvious that one would have been embarrassed if it had not already been thought of by a junior associate in the corporate planning department.

Sometimes, in fact, that suggested action is already in progress, confidentially. When completed, it is often sadly amusing to read the advice giver's intonation in print: "Finally they listened to me."

The job of listening to the shareowners and those who purport to represent them (and sometimes do) is occasionally hard and not always pleasant. The advice is sometimes right but often wrong if followed slavishly and prescriptively. But the process is no more complex and no less important than that of listening to customers and all the other stakeholders. They're also sometimes right, and sometimes wrong because they may not be aware of all the possibilities. After all, for example, no one *asked* for the Internet — it wasn't obvious — but it was rapidly embraced, once presented.

The voices all need to be heard and their views seriously considered. It's not a popularity contest, however. Nor is it a "political poll-driven" adoption of values and programs. And, fortunately, the day of reckoning for management — at least at the start — is often more like the U.S. Senate's six years than the House of Representatives' two. But the day of reckoning does come — with either delicious rewards or "the pursuit of other interests."

The shareowners will, in the end, have spoken. I would have it no other way, nor would most others I have known who run or have run companies. In the end, you will be judged on how well you sorted out the voices — internally and externally — even as you were given time to hear the right ones. Sooner or later, though, you'd better make the right choices — you'd better be right.

The thundering voice to the newly anointed CEO is correct: Don't ever, *ever* forget the shareowner.

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