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BLOG: The Conversation

The Inauthentic Communities of the Modern Executive

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Marshall McLuhan famously said: "We shape our tools and thereafter our tools shape us." The same, I believe, holds for community. We shape our community by choosing which actors comprise it and what roles they play. And we want to be a valued member of that community, so we adhere to its norms and conventions — our happiness depends on it. For this reason, the community we choose is critically important. If it is a productive community, it will help make us better. If it is unproductive, it will quietly but surely make us worse.

So it behooves us to explore the quality of the community of the modern business executive. As mentioned in my last post, customers, employees, home city and long-term shareholders loomed large in the typical community of the 1950s and 1960s. The intimacy of these communities was aided by the more manageable scale of the enterprises of the day. GM, the behemoth of 1960, pulled in revenues that would in today's dollars ($66 billion) put it behind Archer Daniels Midland, 2009's 27th placed company, way below number one Exxon Mobil with $442 billion.

In fact, only ten companies in 1960 were bigger than regional power utility Pacific Gas and Electric (#176) in 2009. This meant that executives could have a relatively intimate relationship with their customers, who were mainly located in their company's home region or at least country. Employee bases were smaller and concentrated close to home, which tended to make executives a prominent force in their home cities. And their shareholders stayed on the register for a much longer period than they do today.

This structure had a number of beneficial effects for executives. It was easier to get to know customers, figure out how to serve them, and continuously improve a product or service. It was easier to get to know employees because there were fewer of them and they lived nearby. And since the home city was more important to the company and the executive typically had a network of friends outside the company in that city, the executive was less likely to have a schism between his corporate role and personal role relative to the city. That is to say, doing things to benefit the city made sense both corporately and personally. On top of that, shareholders were more likely to encourage or at least tolerate long-term planning rather than very short term results because they planned to be around for the long-term.

While not perfect, this structure enabled the executive to live a reasonably authentic life; the way he wanted to live personally was largely aligned with her corporate responsibilities. He wanted to make the customers — whom he was likely to know personally — happy. He wanted to support his employees' well-being — employees who he and his family probably knew. He wanted to be a respected figure in the city, a city that was important to his company and his family. And he wanted to make his shareholders happy because he knew that they had placed a long-term bet behind his company. If he worked on all those aspects of his community, he could be successful and happy. And by serving customers and employees well, the corporation was likely to keep on prospering.

In the intervening years, as corporations have ballooned in size, the community has become far more impersonal and distant. Customers and employees have become more dispersed and distant and the home city has become less central — even expendable, as Boeing's abandonment of Seattle demonstrated. And perhaps most important, a company's owners have become a group of distant professionals who trade their holdings at the click of a button. Many large shareholdings, in fact, aren't even managed by people.

It was just as this process was taking place that the idea that shareholder value was a corporation's principal objective function took hold, largely, I think, through the agency of business schools, whose dramatic rise coincided with the decline of the traditional business community. With the new creed came an army of professional proselytizers who have come to be the principal agents in the executive's new community: Wall Street stock analysts who cooed with approval when shareholder value was put first and delivered spankings when it wasn't; Wall Street investment bankers touting "value accretive merger and acquisition ideas"; strategy consultants providing approaches to slash costs and "enhance shareholder value"; and the financial press looking for a story.

Unfortunately, these new players' interests weren't very well aligned with either the executive's or the company's interests. Analysts want to look good by predicting the unpredictable. Investment bankers want the fees that come from mergers and acquisitions, not a share in the results from them, and the strategy consultants are similarly motivated. The financial press is as interested in a negative story as a positive one, if not more so.

It is hard to see in what way this new community was good for the executive or his company. To be a valued member of that community, the executive had to give guidance to analysts on things on which he couldn't actually predict — and then make the predictions come true; do transactions that provided the investment bankers with fees; provide arbitrage opportunities for the shareholders; and provide stories for the financial press.

Little of this produces any good for the company, and most executives know it. Even as they give their analyst friends earnings guidance, there's a small voice inside asking them: "Why are we doing this? The market will know exactly what our earnings are going to be at the end of the quarter and that is a mere three months from now. What good does it do for anybody to have a guess at that number three months earlier? Absolutely none. In fact, it does bad things — like make our CFO manipulate earnings to hit 'the consensus number'."

Yet so strong is our need for a community, however inauthentic, that people will persist in ignoring that small voice inside their heads.