THE FORUM OF YOUNG GLOBAL LEADERS SHAPING THE FUTURE

WORLD ECONOMIC FORUM

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SHAPING THE POST-CRISIS AGENDA

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Shaping the Post-Crisis Corporation

Throughout the current economic crisis it has been very clear that it is not just the financial services industry that has suffered. Automotive, IT, Software, Chemical, Pharmaceutical, Shipping, Media and Construction companies have all demonstrated that they have not been able to build business models and operations that are capable of riding a downtown without significant "convulsions". These are typified by large reversals in financial results, mass layoffs, bankruptcy (or bankruptcy-protection) and the disappearance of long-standing companies.

If the root cause of the financial services crisis was based largely on a classic asset-bubble in property values, other companies have no such excuse. At this point CEOs and CFOs are blaming their reversals on "falling demand", "market softness" and "the general economic downturn". However, the speed and severity of the deterioration in non-financial corporate performance would imply that they have sacrificed any long-run health of their firms for short term profits.

In fact, these well-worn phrases are a lot of euphemisms for the fact that publicly-quoted corporations seemed incapable of long-range planning and thought. They were unable to build businesses that could credibly withstand a tougher set of economic circumstances. Many companies sacrificed the medium term for the very short term.

In a society where most investment profit is now sought from speculation, rather than longer-run value-creation, this should not really be a surprise. The bourse system was built to provide a market where businesses could find capital, and capital could seek a rate-of-return, largely commensurate with risk. Notwithstanding the occasional asset-bubble (do we ever learn?), this market was largely efficient. The key is that it usually prized genuine creation of value based on free-cash-flows. Capital was largely rewarded through dividends. Share prices tracked genuine performance and its likelihood of being repeatable.

If all this is true, and not just the rose-tinted nostalgia of a modern CEO, then the question for the post-crisis order is this…

"Can we create a system of regulation, taxation and reward that dampens these market excesses - one where we value genuine value creation beyond the quarterly results cycle?"

The World Economic Forum has the academic and business experts, as well the corporate and government leaders, to spearhead the creation of an adjusted framework for public company investment and reward. Such an approach will not only favour value over speculation, but the longer-run view will make it easier to deal with global challenges such as climate-change, disease-eradication and the elimination of poverty.

The World Economic Forum should take it upon itself to define a blueprint for an adapted capitalist model that values longer-run value creation.