

We're talking today about the changes in the corporation and, particularly, about the role that CEOs play in leading American corporations. We're fortunate to have John Reed with us. John is the former chairman of Citicorp and Citibank, and then after Citicorp merged with Travelers, he was the co-CEO of the Citigroup.

Then, as an indication of the level of respect the business community has for him, he was asked to serve as chairman of the New York Stock Exchange from 2003 to 2005. So John, thank you for joining us. Maybe, we could start just by getting your perspective on what is the role of the corporation in the American economy, and, particularly, the responsibilities of the CEO.

The role of the corporation in the US has changed quite a bit, and I've witnessed some of this change. My own personal view is businesses' responsibility is to create customers, satisfy the customer needs, and do so in a way that produces decent financial results on an intermediate to longer period of time.

And obviously, there is a social role for the institution itself. You typically employ a lot of people. You invest in factories or in office buildings or what have you, and so you become a part of the community. And it's changed today. This idea of shareholder value tends to define the role of the company in economic terms.

Why do you think the role of the corporation has changed over the years?

I first became CEO in '84. At that time, companies were pretty well run by the management. The CEO was, obviously, the key decision-maker, but management was really the controlling group, if you will. I would say by maybe 15 years later, the investors had taken control, and they have a very different set of objectives.

And I think what happened is, first of all, I think there was an extended period of time when stock market didn't give very good returns. There was pressure from investors to get better performance. Somebody got the idea that, hey, maybe we could scare companies into doing better.

It started out with something called greenmail, where somebody would take a position in a company, maybe they'd own 5%, 6%, 7% of the company. Then, they'd go to the management, and they'd say, look guys, you really have some divisions that aren't performing. You guys aren't on top of your game, and we want better performance from you. And if you don't, we're going to lead some kind of shareholder revolt.

Well, this took hold, and managements that tried to ignore this got into trouble, often were thrown out. Boards were changed, and pretty soon the shareholders were in charge, and what they said was: look management, we don't care what you pay yourself, we don't care how many jets you have flying around, but we want the value of the stock to go up in a very nice way and a very predictable way, and we want it next quarter. And by the way, it

would be nice if you would tell us, in anticipation, what it is you might be earning next year, next quarter, so forth and so on, something I never did. We never in Citi, during the time I was there, provided forecasts as to what we were going to earn the next quarter or the next year because they became targets, which if you were one penny off, the price of stock would change.

Certainly, we understand the focus is more on shareholders and so on, but thinking about the role of the corporation in the broader economy and society, what do you think are some of the second and third order consequences of this change?

I think the biggest consequence is you're getting very short-term. It's very difficult to spend a lot of money training people if you're worried about next quarter. You train people because you're worrying about how they're going to perform over an extended period of time makes that investment well worthwhile, but it's very easy to cut if you're just trying to hit a number.

And the other thing is where before maybe you kept a plant open that maybe could be moved, but you've been in that community for a long period of time, you had a lot of workers who were loyal to you, and you were loyal to them. Those decisions changed, so all of a sudden you said: you know what? We can't afford to keep this plant even though it's not really bad, it's just not as good as it might be. So it's eroded the relationships both with community and with employees.

Suppose we wanted to get a re-balancing of the corporation where it begins to address some of these broader concerns as well as the concerns of shareholders. Any thoughts on a path forward?

I think this is a question of values. A CEO can say, look guys, I'm not going to maximize returns over the next two or three quarters, but I am going to maximize them over a period of time, and just begin to adjust expectations. I think shareholder value has a place, but it is a factor amongst two or three, and I think the most important thing is to expand this time frame a little bit.

Don't say, hey, I'm not interested in how the stocks are going to perform, but let's say, I'm more interested in how it's going to perform over the next 18 months. But the CEO is going to have to give voice to that, because if the CEO doesn't change his or her conversation, it's going to be very hard for lower level people within a company to start taking a somewhat broader and longer look at things.

We are in the business here at MIT of educating the next generation of corporate leaders and CEOs. What role do you think institutions like ours should play in this whole process?

You have to get the conversation going. In other words, if people come in and simply say, hey, the only thing that counts is shareholder value, and they don't think about it, and they don't talk about it, and they don't say, well,

what are the implications of that? Well, then, it's like going to school and saying the only thing that counts is grades. I'm just going to get my grades.

I think business schools here at MIT, or other business schools, need to have the conversation that says, hey, there's shareholder value. This is what it means. This is what it brings. Now, what are some of the other values that need to be thought about, and what is the juxtaposition? Because if you get the conversation going, then each manager as he or she goes out into the world, will begin to have a more nuanced understanding of what it is they're trying to accomplish, and they'll begin to bring some balance.

Well, this is great John. I really appreciate it.

Thank you.