



BSR Conference 2008 | Sustainability: Leadership Required Long-Term Value Creation vs. Quarterly Earnings

Breakout Session Summary

Friday, November 7, 2008 | 10:30 a.m.–noon

Speakers

- **Gene A. Capello**, Assistant General Council, Pfizer
- **Peter S. Knight**, President, Generation Investment Management US LLP
- **Lara Warner**, Head of U.S. Equity Research and Managing Director, Credit Suisse First Boston
- **Rebecca Darr**, Senior Fellow, Corporate Programs, Aspen Institute (moderator)

Highlights

- The current economic crisis provides an unprecedented opportunity for companies and investors to focus on long-term strategies.
- Although analysts have been part of the problem in driving a focus on short-term returns, they will be increasingly demanding that companies have long-term, sustainable strategies in place before making investments.
- Long-term investors will require increased transparency and communication.

Memorable Quotes

- “The mother of all investments over the next 50 years is going to be in the area of climate change. We are moving from a high-carbon to a low-carbon economy and it is going to be bigger than the industrial revolution and faster than the technology revolution.” —Peter S. Knight, U.S. Business Generation
- “You have to convince your investors that [the return] is worth the wait, and the best way to accomplish that is via good communication.” —Gene A. Capello, Pfizer
- “As public and private investors begin to hear how the most innovative companies capture this trend [of long-term value creation] and put it to use inside their companies, those who don’t do it will be at a disadvantage.” —Lara Warner, Credit Suisse First Boston

Overview

Darr began the session by polling the audience to determine whether participants believed that long-term value creation was more important to the corporate social responsibility (CSR) agenda than a 90-day time horizon. She framed the session as an exploration of tensions between the two.





Business for Social Responsibility

Warner predicted that a shift in investment strategies was about to occur, with the market moving from the hands of traders into those of portfolio managers and analysts. As a result, today is a better day to make the case for long-term value.

Knight supported this view, proposing that 60 to 80 percent of a company's value is in long-term wealth creation, which is driven by social, environmental, and geopolitical factors. Issues such as climate change, water, poverty, and demographic shifts have long been present, but capitalism is now at a crossroad with greater opportunities to have significant impact. In Knight's opinion, companies are more suited than governments to solving these challenges.

Warner explained that the causes of the current economic crisis were the lack of transparency and the lack of understanding of risk. She specifically pointed to two significant factors: corporate bonus structures that encouraged short-term risk-taking and unsustainable practices, and regulation that served to reduce transparency by creating a fear around disclosure. With this crisis, these practices are changing quickly, and the job of analysts is to try to predict how industries will evolve in response over the long and short term.

Capello also stressed that we are facing significant opportunities to reevaluate the ethics of our businesses and industries, and to make positive, sustainable changes. He also emphasized the need for internal communication of and rewards for long-term thinking.

In response to questions about convincing shareholders and investor relations departments, the panelists advised developing and communicating a vision as well as steps along the path. Although today's market encourages aversion to risk, good communication of the vision and steps toward achievement will mitigate that aversion. In addition, sustainable investments will be attractive to an investment community looking for opportunities removed from the reality of the current economy.

Capello concluded that the longer the market downturn lasts, the more people will come to terms with the fact we need a change. Growth will slow, and only the fittest will survive. He expressed hope that the investment community would act on this opportunity to adjust its goals.

The panel concluded that in order for us to be successful, we all—companies and the investment community—have to play a role and think of the long term.

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