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How to navigate the twin demands of current performance and future investment.

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Peter Drucker once wrote that the manager's job is to keep his nose to the grindstone while lifting his eyes to the hills. He meant that every business has to operate in two modes at the same time: producing results today and preparing for tomorrow.

But "preparing for tomorrow" really means investing in the future, an expensive and uncertain proposition. It demands taking an incremental hit to today's performance in exchange for an unguaranteed payoff. Meanwhile, you have to meet your previous promises of big gains to have the wherewithal to continue investing. But that wherewithal will soon be lost if meeting those promises means forgoing new investments that are essential to future results. Drucker's dictum is not only an acrobatic feat, but a managerial one as well.

Rigorous research shows just how hard Drucker's dictum is to pull off: Nearly 60 percent of all companies fail at the double act of sustaining both results and investment year in and year out. That's because most corporate leaders address the short-term–long-term tension by seeking the right balance between today and tomorrow. When the two are out of balance, this means taking less of one in order to get more of the other. And it inevitably leads to a kind of corporate schizophrenia, where companies switch between visionary, manic investment and aggressive, "performance-oriented" retrenchment—often with a leadership change marking the end of one phase and the start of the other.

It is tempting (and common) to blame the short-term–long-term tension on "short-termism," particularly in the public capital markets. Yes, the average holding period of shareholders has shrunk dramatically over the last half century, many market players (buy-side analysts, fund managers, market commentators) are obsessed with quarterly results, and too many companies pay their leaders on the basis of current earnings per share. So what?

The real problem is rooted in the misguided premise that there is an inevitable, irreconcilable trade-off between producing current results and investing for the future. And it's made a self-fulfilling premise when companies pursue certain misguided strategies—what I call the "gang of five"—that intensify the tension rather than ease it.

Two of these strategies lead to chronically insufficient investment in a company's future. The first, *financial engineering,* involves a range of policies such as cutting costs to meet margin targets, passing on "dilutive" acquisitions, and buying back shares to boost earnings per share. The second, *price leadership,* is based on a company's promise to be the consistently-lowest-price provider in the market.

Other strategies suffer from the opposite problem: They lead to systemically indiscriminate or excessive in-

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vestment. One of these is *innovation leadership,* where the idea is to out-innovate the competition by being at the forefront of research, technology, and new product development. Another is *cross-selling,* or selling additional products to the company's current customers by leveraging the relationships it already has with them. And the last is *share leadership,* a commitment to always being number 1 or 2 in the market based on the belief that this leads to superior profitability.

The trouble is, the gang of five have little to say about where a company should invest to get better at adding value to its portfolio of businesses, reaching its target customers, or further differentiating its value propositions, and where to cut in order to release costs and capital for funding sustainable, profitable growth. As a result, companies that follow one or more of these strategies are over- and underinvesting at the same time, exacerbating the short-term–long-term tension, and falling short of their potential. Instead, companies should anchor their strategies in the "strategic five":

- **What businesses should we be in?**
- **How do we add value to our businesses?**
- **Who are our target customers?**
- **What is our value proposition to those customers?**
- **What capabilities make us best at how we add value to our individual businesses and how each business delivers its value proposition?**

When the management of current performance and future investment is guided by distinctive, compelling answers to the strategic five, the profits it produces are truly earned. They are surely more sustainable than those driven by the wrong motives, such as cutting costs to meet a margin target, bundling products to increase cross-sell, or buying the number 4 or 5 player to become number 1 or 2. The gang of five might produce temporary earnings growth, but they rarely produce growth of sustainable profits because they are silent on the strategic five.

The inescapable fact is that companies must invest in their future if they are to have one, and they must produce earnings today in order to create the wherewithal for doing so. But no company of any size and complexity is so perfectly efficient all the time that there aren't costs and capital that could be released to offset the incremental hit to current performance when investing in its future. So don't blame short-termism for the short-term–long-term tension. If you are feeling its heat, look to your strategy and ask one simple question: Will it grow sustainable earnings or just earnings? The stronger your company's strategic five, and the more they guide your leaders' decisions and actions, the more sustainable its growth and profits will be—and the less it has to rob the future to achieve today's results. +

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