India’s best managed company

Business, Company

A typical example of 'short-termism' was the collapse of the dot-com market in the early part of this decade. The business world should have learnt some worthwhile lessons about 'short-termism' when the 'dot-com bubble' finally burst. In the late 1990s, the American media was overwhelmed with dot-com start-up stories about young people with littlemoneyand business experience but with an innovative idea controlled the dot-com world. Numerous internet companies are hurriedly established with short-horizon objectives with the illusion of dominating the market in the short run.

They adopted daring business practices to maximize growth over profit, assuming that customer base is the prerequisite for success. In the meantime, many investors consider this an invaluable opportunity to make money quickly and, therefore, rushed into purchasing any new dot-come stocks as they came on the market. These investors played a central part in the dot-com phenomenon, pushing up the unrealistic share prices to greater heights. As a result, the whole American stock market boomed during the 'dot-com bubble'.

However, short-termism was proved not to be a compromise for long-term value when the 'dot-com bubble' eventually burst in around 2001. A large number of internet companies are brought to court for adapting immoral business policies such as borderline monopolies. The largestcommunicationcompany in the US at that time - WorldCom, was found to have used illegal accounting practices to overstate its profits by billions of dollars.

Other communication companies, namely NorthPoint Communications, Global Crossing, JDS Uniphase, XO Communications, and Covad Communications, burdened with debts from their expansion projects, had to sold out their assets for cash or filed for bankruptcy. Other dot-com companies ran out of capital and were acquired or liquidated.

Their domain names were picked up by old-economy competitors or domain name investors. Several companies and their executives were accused or convicted of fraud for misusing shareholders' money, and the U. S. Securities and Exchange Commission fined top investment firms like Citigroup and Merrill Lynch millions of dollars for misleading investors. Obviously, the 'dot-com bubble' is only one among numerous examples of corrosive effects of 'short-termism' on misleading corporate decision. However, there would be by no means conflict between a short-term investment and a longer-term orientation if firms know how to allocate their funds.

In other words, there should be separate funds for long-term oriented ventures such as environmental controls, research and development, which are supported by profits gained from short-term cash generating projects. Long-term strategic projects, in turn, would automatically produce a better short-run performance. Moreover, it is vital that the whole organization lay muchstresson a long-term vision to see whether they are on the right track or not (Esbji?? rn Segelod 2000; J B Coates et al 1996).

In conclusion, 'short-termism' is undoubtedly a defective problem for corporate decision making, and companies may be short-lived if they insist in pursuing quick payoffs at the cost of a long-term value. Unless they cease to pursue myopic targets, these firms might not survive to see their fruition.

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