CAMBRIDGE – I recently examined the problem of corporate short-termism from two nonstandard angles. One was that some short-termism is sensible. Large firms face an increasingly fluid economic, technological, and political environment – owing to more global and competitive markets, to the greater potential of technological change to alter firms’ business environment, and to governments’ growing influence over what makes business sense. In this fluid environment, large companies must be cautious before making large, long-term commitments.

Second, I described how emerging data could suggest measurement problems with the conventional wisdom that more rapid trading in financial markets is making them more oriented to the short term than ever before. Proponents of this view point to furious trading in New York and London, with average holding periods for major stocks diminishing in recent decades. In fact, the change may be driven by a rapidly trading minority, and not by major stockholders shortening their holding periods. Indeed, the average holding period for America’s core shareholders, like Fidelity and Vanguard, has increased in recent decades. (I examine these issues in greater depth in a longer forthcoming article.)

The shareholder activism around Apple highlights the importance and controversy of the short-term problem. Apple has been spectacularly successful in the past decade. Its products, from iPhones to iPads to MacBooks, have captured consumers’ imaginations, remade markets, and earned the company and its shareholders huge sums of money. Apple’s stock capitalization has soared, and it became the first trillion-dollar company.

As Apple’s profits have grown, it has amassed $137 billion in cash, according to a recent count – more than it can profitably use (at least for now) in its operations. So the company has wisely left its cash invested in global financial accounts, not business operations. Meanwhile, its staggeringly successful products are generating still more cash to handle and stockpile.

Enter shareholder activist David Einhorn, whose hedge fund Greenlight Capital has been pressing Apple to distribute a healthy fraction of that cash. Much commentary on the foray has been negative: Einhorn’s proposal is a short-run, financial-engineering idea for a company that has gone from success to success, it is said – American stock-market short-termism at its worst.

Maybe it is. Maybe investors are being too quick to pressure a great company. But, odd as it might seem, getting its cash out could be a good long-term strategy for Apple.
There has long been a life cycle for firms: young firms innovate, are cash-hungry, and have to scramble for financing. Some succeed, sell their products, and find themselves pulling in more cash than they need. Great companies take that cash and invest it in even better products, taking the firm to new heights. Apple has been one of those companies.

But, inevitably, the firm’s technologies become standardized and commoditized. New, hotter technologies come along, and the firm no longer attracts the best people to work for it, because, well, it’s no longer the next new thing. New products stall, old products are not as profitable as they once were (because competitors figure out how to make something better), and markets and consumers move on.

Firms that reach that point, and that know themselves, then return more of their cash hoard to their investors, who invest it elsewhere. In the 1980’s and 1990’s, large swaths of American industry – especially the domestic oil industry – faced this problem, described by the economist Michael Jensen as the managerial challenge of handling free cash flow well.

Where is Apple in that company life cycle? Is it still in its youth, cash-starved with more ideas than it can finance? Is it middle-aged, but nimble and able to remake itself, as it did several times during Steve Jobs’ tenure? Does it need $137 billion to engineer and finance a large-scale Apple TV that will be even more successful than iPhones and iPads?

Or has the company peaked? Could the rollout last fall of the inferior Apple Maps, which sent people to the wrong destination – causing severe public embarrassment and leading to a managerial shakeup – foreshadow a time when Apple’s best days are behind it? The company could be at a high plateau and could stay there for years, even decades, but does it really need $137 billion in cash for new investments?

Here is another way of looking at the Apple problem: If Apple continues to succeed, won’t it generate the cash that it needs for innovation from its super-products, like the iPad, the iPhone, and the MacBook? Roughly 70% of Apple’s revenues come from the iPhone and the iPad. Will those products last, or will they be superseded? Were those products’ success the result of a unique Apple asset, namely Steve Jobs, or is the company well positioned to produce the next big thing? Could it be too tempting in the short run to Apple’s management to have that $137 billion in the bank, so that it spends some or all of it on investments that fail to pan out in the long run?

It is at least possible – maybe even likely – that Apple’s best long-term move would be to release a hefty portion of its unused cash to its shareholders, who would then plow it back into the economy. Meanwhile, it can finance its next new thing from the cash that its great products will continue to generate. What is being criticized as short-termism could well be a long-term financial strategy that is just right for Apple.