THE LONG-TERM MIND-SET IN TIMES OF SHORT-TERM HYSTERIA

IN FEBRUARY THE FINANCIAL TIMES PUBLISHED AN ARTICLE INTRIGUINGLY ENTITLED 'TOP US FINANCIAL GROUPS HOLD SECRET SUMMITS ON LONG-TERMISM'. THE ODD THING IS THE SECRECY OF THESE SUMMITS. COVERT SUMMITS MAY BE PART AND PARCEL OF DAN BROWN NOVELS AND COLD WAR HISTORY BOOKS, BUT WHY ARE THEY BEING CONVENED IN THESE TRANSPARENT TIMES? THESE BANKERS ARE NOT CONSPIRING TO CREATE A NEW WORLD ORDER, SO WHY ARE THEY GIVING THE APPEARANCE OF DOING EXACTLY THAT?

A SECRET SØCIETY ØF LØNG-TERM THINKERS

None of the participants of the summit were willing to comment on the initiative. What we do know is that its goal was to promote long-term thinking in the business community. What would explain such secrecy around a call for long-term thinking? The answer would seem to be that we live in a society in which short-term thinking is so deeply ingrained that long-term thinkers have to form a secret society.

What do we actually know about this secret summit? The participants were the big beasts of the asset management world, including Warren Buffett (Berkshire Hathaway), Jamie Dimon (JPMorgan Chase), Abby Johnson (Fidelity), Larry Fink (BlackRock), Tim Armour (Capital Group), Mark Wiseman (Canada Pension Plan Investment Board) and Jeff Ubben (ValueAct).

The FT reported that their first meeting was held in August 2015, and their initiative is expected to come to fruition sometime in 2016. The asset managers are said to be working on 'a statement of best practice on corporate governance' which aims to convince business leaders around the world to follow a longer-term strategy.

A list of best practices would certainly be an inspiring starting point, but is not in itself sufficient to really explain the root cause of this fixation on short-termism. The business community needs a deeper understanding of contemporary sociocultural developments and how human behaviour has changed in the past few decades.

This paper has three parts. Part one examines current business culture, with its obsessive focus on the short term. Then part two delves into the underlying sociocultural and psychological forces at work. Finally, part three looks at how leaders can embrace a long-term strategic thinking.

1

DISRUPTIVE INNOVATION

VERSUS PROGRESS THROUGH LONG-TERM VALUE CREATION

The best way to understand the asset managers' initiative is by turning to Larry Fink of BlackRock. His latest letter (February 2016) to the CEOs of S&P 500 companies and large European corporations is instructive. He essentially urged them to take a long-term view in order to generate sustainable returns over time.

This was not Larry Fink's first letter calling them to action. In fact, his letter shows signs of frustration.

"OVER THE PAST SEVERAL YEARS, I HAVE WRITTEN TO THE CEOS OF LEADING COMPANIES URGING RESISTANCE TO THE POWERFUL FORCES OF SHORT-TERMISM [...] MANY COMPANIES CONTINUE TO ENGAGE IN PRACTICES THAT MAY UNDERMINE THEIR ABILITY TO INVEST FOR THE FUTURE. [...] TODAY'S CULTURE OF QUARTERLY EARNINGS HYSTERIA IS TOTALLY CONTRARY TO THE LONG-TERM APPROACH WE NEED."

Nobody in the business community uses the word short-termism – as it has a negative connotation. But everybody uses the word disruption, which has become a business mantra. It is common opinion that we live in an era of constant disruption and that the world is changing faster than ever before. This disruption mantra is fuelling 'short-termism' as it entails that every company needs to be agile, flexible and ready to change its course – preferably on a daily basis.

Where does this obsession with disruption and the 'short-term quarterly earnings hysteria' come from? Some say we have to go all the way back to Schumpeter's theory of creative destruction, which he expounded in the 1940's. The current hype, however, started much later: in 1995. In that year Harvard professor Clayton Christensen introduced the world to the term 'disruptive innovation' in his article Disruptive Technologies: Catching the Wave, which he further developed in his book The Innovators Dilemma, published in 1997. It was exactly the right theory at the right time: catching the excitement of the new-fangled internet and the exuberance of the dot-com boom of the late 1990's.

The subsequent dot-com crash in 2000 was merely a brief interlude in the eyes of disruption fans. As the web matured over the first decade of this century disruption became the norm, regardless of the kind of organisation. As Jill Lepore, professor of history at Harvard, put it in 2014: 'Ever since The Innovator's Dilemma everyone is either disrupting or being disrupted.' For start-ups today to get investors on board they need to present themselves as ready to disrupt at least one entire industry – and in as little time as possible. That is what is written in all of the handbooks for start-ups: this is what investors want to hear.

Executives of established organisations are in a similar situation. They are told over and over again by business consultants, futurists and management book authors that there is plenty of disruption still to come, so they have to keep disrupting. It is not about next week or next month – do it instantly or you will be the next Kodak or Nokia. The theory of disruption has firmly taken root at business schools around the world. The University of Southern California even offers a degree programme entitled 'The degree is in disruption'. There are more than 4,000 results for books on 'disruptive innovation' on Amazon!

This disruption rhetoric alarms business leaders. A recent survey of banking CEOs showed they were more afraid of fintech companies than of their traditional competitors. They fear their industry will be 'uberized' and they will be a disruptive company's prospective 'lunch'. Harvard's Jill Lepore puts it bluntly: 'The disruption mind-set is transfixed by change, and blind to continuity. [...] Disruptive innovation

is a competitive strategy for an age seized by terror.'

Alongside this angst, there is the compelling opportunity to become – or invest in – the next unicorn. This has to be done at a break-neck pace – if a start-up does not rise to stardom like one of Elon Musk's Space X rockets, investors and talent will jump ship. The statistics are quite staggering: according to various studies, between 75% and 90% of start-ups fail. Investors and talent are like Las Vegas gamblers: they are very excited and hope to win the jackpot, but the odds are against them.

It often seems as if disruption is the only path to progress. Yet is this real progress, when the costs of disruptive change are so high? Many businesses seem to have forgotten that growth can also be achieved with slow and steady incremental progress. Larry Fink calls this long-term value creation. It is more than just shareholder value. In his 2016 letter he states:

"GENERATING SUSTAINABLE RETURNS OVER TIME REQUIRES A SHARPER FOCUS NOT ONLY ON GOVERNANCE, BUT ALSO ON ENVIRONMENTAL AND SOCIAL FACTORS FACING COMPANIES TODAY. [...] OVER THE LONG-TERM, ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES – RANGING FROM CLIMATE CHANGE TO DIVERSITY TO BOARD EFFECTIVENESS – HAVE REAL AND QUANTIFIABLE FINANCIAL IMPACTS. [...] AT COMPANIES WHERE ESG ISSUES ARE HANDLED WELL, THEY ARE OFTEN A SIGNAL OF OPERATIONAL EXCELLENCE."

There is strong evidence this is a winning strategy, paradoxically even for start-ups. A comprehensive study of start-ups by Wharton University showed that so-called 'improvers' are five times more likely to succeed than 'first movers'.

A classic example of incremental progress is the Volkswagen Transporter van, which was first launched in 1961. Every generation of this van has been a little bit better than its predecessor and a bestseller in its category. In 2015 the sixth generation of the van was launched, which looked strikingly similar to the fifth generation. Volkswagen said it could not improve much upon perfection, and launched the new model in some countries with the brilliant slogan: 'The New Volkswagen Transporter: More of the Same.'

Volkswagen's current crisis probably precludes it from the secret society's list of long-termism best practices. Something that probably will make it on to the list is Unilever's much-publicised decision to abandon quarterly reporting. The rationale is to discourage executives from pursuing short-term goals at the expense of realising long-term, sustainable ambitions. Unilever's CEO Paul Polman has stated that 'it [has] worked out well [...] you need to give a lot of people the courage, the permission, to do it. We want businesspeople that have deeper purposes that guide them long-term.' We will have to wait for Larry Fink et al for more inspiring examples.

In order to better understand businesses' behaviour things also have to be viewed with a broader scope. Short-termism is part of the much broader sociocultural trend that the whole of society is increasingly focused on today, instead of tomorrow. This is the topic of part two.

IF WE WERE TO TAKE A STEP BACK, AND LOOK BEYOND THE UBERS AND THE AIRBNBS THAT LOOM SO LARGE IN EVERY MANAGEMENT BOOK AND KEYNOTE PRESENTATION, AND ASK OURSELVES WHETHER WE REALLY LIVE IN TIMES OF DISRUPTIVE INNOVATION, THE ANSWER MIGHT VERY SURPRISINGLY BE: NO.

Earlier this year Princeton Professor Robert Gordon published the ground-breaking book The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War. He concludes from a staggering amount of data that the period between 1870 and 1970 was an age of what we would now call disruptive innovation. The car, aeroplane, flush toilet, telephone, washing machine etcetera were invented in these 100 years. He argues that what we are now seeing is not revolutionary, but rather evolutionary, and that 21st century disruption rhetoric is a fallacy. To illustrate the point, he offers examples such as office space, which has changed little since the 1970's. As for counterexamples like robots: they are still unable to even fold your laundry.

A great deal of the responses to his thesis have been quite emotional. Many techno-optimists, like Bill Gates or Andrew McAfee, have argued that Gordon is wrong, that we are in the middle of a transformational paradigm shift, and it is only a matter of time before artificial intelligence, automation, robotisation and suchlike change society as we know it forever. Are the modern 'disruptionists' or Robert Gordon right? The answer is: it doesn't matter.

2 SOCIO-CULTURAL FACTORS

Before examining the times in which we live, it is useful to briefly reflect on some basic psychology. How does the brain form thoughts and make decisions? According to the Nobel prize winning psychologist Daniel Kahneman's research there are two cognitive systems in the brain:

SYSTEM 1 – Fast, automatic, frequent, emotional, stereotypic, subconscious

SYSTEM 2 – Slow, effortful, infrequent, logical, calculating, conscious

We use System 1 for most of the decisions in our lives. System 2 thinking needs time, focus, deliberation, analysis and a lot of effort. Kahneman's research shows that the busier we are the more we stick to System 1 thinking, even when it would be better to use System 2 for a certain task.

I sometimes ask people in workshops to describe the times in which we live with one word. The most common answers are: 'fast-paced', 'dynamic', and 'emotional'. These are the exactly the words which describe System 1 thinking.

I would argue that we live in a 'System 1 society'. We are busy and continuously distracted. If you would like to test yourself: when was the last time that you really were bored and had nothing to do? Or: when was the last time you saw a person over the age of 12 who was completely bored? This is a fundamental change in human behaviour. We are constantly on, constantly multitasking and very much focused on the next email or Facebook update.

The psychological term for getting what you want right now is instant gratification. Author and researcher Paul Roberts has written a book on the subject, The Impulse Society, in which he concludes that 'our entire consumer culture has elevated immediate gratification to life's primary goal.' Waiting is hard for the brain; and System 2 thinking takes effort too. What we see in the 21st century is that our brains are getting more and more of what they want instantly, thanks to technical and societal developments. As a result, our brains have become accustomed to instant gratification – the more they get, the more they want.

How did we get caught up in a situation in which we indulge in life's short-term temptations at the cost of our long-term goals? There are three main factors:

1. TECH/ALWAYS-ON

The biggest distractor and short-term thinking booster is right in your pocket: your smart phone. In the recent past we consumed our media, entertainment and social interaction in filtered chunks at specific moments of the day. We watched the eight o'clock news to receive an update on what was happening in the world. When we opened our morning newspapers we received the daily values of the stock exchange indices. When we picked up the phone or went to a bar we chatted with our friends. Nowadays, news and media are continuously updated and only partly filtered. Every time you open your phone or click on an app the world has changed. All these apps know exactly what to do to keep you hooked and checking in over and over again. There are so many updates that even the most avid techies get the feeling they have missed more than they have taken in.

This is something that social media companies are keenly aware of. Our behaviour is transparent in this age of big data and all these websites and apps can see how much we love all the constant updates. Our brains prefer spectacular 'clickbait' like 'The Ten Craziest Things Donald Trump Has Ever Said' to a well-balanced political analysis. Media users happily rush from one hype to another – from a Facebook frenzy to a Twitter storm and then onto viral video. Stanford University organised its first Habit Conference in March of this year. The goal was to explain how app builders manage to keep their users hooked to their app as much as possible, using the latest psychological and neuro-scientific insights.

This is not a generational phenomenon. When was the last time you read a business book from cover to cover? I am currently working on my first one. A potential publisher said to me: 'these days, you only have to put real content in the first one or two chapters. The rest is just repetition with case studies and interviews.' He laughed when I looked baffled. 'Son, nobody reads beyond the first two chapters!'

2. CULTURE OF FEAR / LOW TRUST

One of the most famous psychological studies is called the marshmallow experiment. A child was offered a choice between having one marshmallow immediately or two marshmallows if they waited for a short period, during which the researcher left the room and then returned. The researchers found in follow-up studies that children who were able to wait longer for the extra reward tended to have better life outcomes on a variety of life measures.

The interesting thing about this experiment is that it can only work if the test subjects – the children – trust the researcher to keep their promise. As the children were in a laboratory environment with an adult researcher, this was very much a high-trust setting.

Transposing this to our world today: according to a wealth of sociological research, we live in the opposite of a high-trust setting: we live in a low-trust society – also known as uncertain times or an era of anxiety. In its 2016 global Trust Barometer report, PR firm Edelman states that 'increasing distrust is the new reality.' If we take the marshmallow experiment as a metaphor for today's business world, many business professionals would choose to eat life's marshmallow right away as they could not be sure the researcher would come back at all, or whether someone would take the other marshmallow while they were waiting. In short, in a culture of low trust and fear business leaders will try to get what they can right now – for themselves, but also for their companies.

3. SHORT-TERM (WORK) RELATIONSHIPS

The professional relationship is an increasingly short affair. The average worker today only spends around 4.5 years at each of his or her jobs. The Millennial generation, at the beginning of their working lives, only stay for half that time. As a result, people will have ten to fifteen employers over the span of their working lives. That means the answer to the classic job interview question 'where do you see yourself in five years' time?' should be: 'at a different company'. If only people where that honest.

This short-term career focus is reflected in how people approach their jobs. Why would any employee – including the CEO – work towards a company's ten or twenty-year strategy, if their performance review and compensation are based on achieving short-term goals, and they will be long gone by then? Our short tenures fuel the 'quarterly earnings hysteria' the secret society for long-termism is so worried about.

Short-termism is not restricted to our professional lives; exactly the same principle is playing out in our private lives. A telling example is how dating and finding a partner have been dramatically transformed by dating apps. They provide an abundance of options, creating the impression there is a surplus of partners, according to David Buss, a professor of psychology at the University of Texas at Austin. As a result, 'the whole mating system [shifts] towards short-term dating. Marriages become unstable. Divorces increase. Men […] pursue a short-term dating strategy [and] women are forced to go along with it'. Vanity Fair has called this the 'Dating Apocalypse'.

The numbers reflect the shift. This century has seen a huge rise of single-person households around the globe. They are the fastest growing household cohort, which has a huge impact on city planning. Take the Dutch capital Amsterdam, where a large local real estate developer recently announced it would no longer build apartments larger than 40m2.

Looking at how these three sociocultural trends are expected to evolve the coming years, there are no indications things will spectacularly go into reverse. Technology is expected to become even more pervasive and distracting, thanks to wearables and artificial intelligence. The culture of fear and distrust is here to stay and could even get worse, thanks to rising global political tension and further cooling of the global economy. Our careers and love lives are set to become even more multifaceted when the millennials become the dominant generation in society.

So is there any hope Larry Fink and his secret society members will be able to influence our obsession with the short term and our System 1 thinking? As part three will show, the answer is: yes, there is.

3 THE END OF THE MIDDLE – LET'S GET PRACTICAL

Can we overcome short-term thinking, disruption mania and quarterly earnings hysteria? The answer is twofold: yes, but not any time soon. The portents certainly look grim, if you consider the following. As marketers, politicians, app builders and the like gain ever-deeper insights into how the mind works and how to get us hooked, they will exploit our emotions and System 1 thinking in ever more sophisticated ways.

Yet there is cause for hope. According to this year's results of the highly-regarded Edelman Trust Barometer, two out of three of respondents worldwide indicated that CEOs are too focused on the short term. Furthermore, eight out of ten of respondents said that CEOs should be more visible in discussing and leading to solve societal problems. Such problems cannot of course be solved in a quarter; they are long-term issues. This implies that the majority of people realise the value of long-term thinking initiatives and want them.

When it comes to long-term versus short-term thinking, I believe we will see growth on opposite ends of the spectrum. This is the theory futurist Farid Tabarki dubs The End of the Middle: growth will come from anywhere except the middle. We will see even more focus on disruption and investors vying with each other to find the next unicorn. At the other extremity, we will see the rising power of steady progress: the increasing adoption of a long-term perspective and patiently waiting for slow and incremental – but sustainable – growth. There will of course be mid-term thinking as well, but the starting point will be at the extremes – the rest of the strategy developing from there.

None of which means there will be a perfect equilibrium. Short-term thinking and the focus on disruption will be the norm for quite some time. Long-term thinking will be less in the limelight, but it has the potential to be a wonderful and profitable niche.

What kind of companies are already thriving at the long-term end of the spectrum? There is a whole group of companies which are excellent examples of long-term thinking, and are focused on steady progress. Fortunately, there is also a wealth of research on them: family owned businesses. They might not be as sexy as Tesla or Oculus, but on average they grow steadily, suffer the least in economic downturns and score the highest in trust research. The reason for this is simple: they practice long-term thinking, do what is best for subsequent generations, leaders stay on for decades, and they are often deeply rooted in the communities where they operate.

Investors cannot of course force the average tech start-up to become a family business (although it would be nice to see a VC try). But they might look for companies which embrace the long-term management principles employed by family businesses. There are innumerable handbooks on the lessons to be learnt from family businesses.

So what is the eager executive to do? A good starting point would be to look closely at the secret society on long-termism's list of great business initiatives once it is published. In addition, here are three practical business tips to help integrate long-term thinking into your business strategy.

1. PRACTICE LONG-TERM THINKING

There is a difference between talking about long-term thinking and actually doing it. To quote Larry Fink from Black Rock:

ONE REASON FOR INVESTORS' SHORT-TERM HORIZONS IS THAT COMPANIES HAVE NOT SUFFICIENTLY EDUCATED THEMSELVES ABOUT THE ECOSYSTEMS THEY ARE OPERATING IN AND HOW TECHNOLOGY AND OTHER INNOVATIONS ARE IMPACTING THEIR BUSINESSES."

I couldn't agree more. Over the past few months I have discussed this with quite a number of business leaders. The average response is twofold:

RESPONSE 1 – "We regularly have meetings on our long-term strategy'. When asked to elaborate, they often refer to the company's annual strategic offsite meeting. While these offsites may sound great on paper, they are less so in practice. I have a unique insight into them as a speaker who is often invited to kick off such days. There are several problems. One is the prevalence of laptops and smartphones, which are not switched off and are used throughout the sessions. The coffee breaks often resemble some kind of frenetic email-and-phone session, during which executives are sucked back into their daily business. Another problem is that large parts of offsites are dedicated to presenting last year's results to each other (which tends to be boring), presenting next year's plans, or creating them on the spot. I have seen countless CEOs open offsites by telling their people at the end of programme they want practical action plans ('which will disrupt our industry!').

RESPONSE 2 – "Our long-term strategy is firmly anchored in our KPIs'. This is odd, as I have yet to hear the first truly long-term strategic KPI. Long-term strategies are taken apart and then taken apart some more to suit quarterly earnings KPIs. This is not long-term thinking. Even if you did formulate the perfect long-term strategic KPI, it is doubtful it would work in practice. If all the other KPIs are feeding the quarterly earnings hysteria, one long-term KPI will not change the way people work.

2. POST-TENURE REMUNERATION

To engender a workforce that is in it for the long-run, some companies make all employees share-holders in the company. This employee-shareholder model is often used by family-owned businesses (like Ricardo Semler's Semco Partners), but also by start-ups. The latter use this strategy to retain scarce talent for a few years.

A less bold solution, which I have not yet seen put into practice, is for organisations to keep rewarding people after they leave the company. If, for example, a company is successful because of a decision made by people who no longer work for it, they should still be rewarded and get the credit they deserve. If we create a culture of long-term remuneration – regardless of where a person is currently working – we will create a culture which fosters long-term thinking.

This is no easy solution, but it is attainable in our data-driven world. Moreover, there is proof it works: professional football has a comparable system, called the 'solidarity contribution'. If a player is transferred from one club to another, part of the transfer fee goes to the clubs involved in his training and education. In other words, clubs are rewarded for their long-term investments – even if they were made two decades ago.

People like setting goals, devising targets, and seeing results from their work. If we want people to embrace the long term, we have to compensate them for the long-term things they do. This system will not work overnight, but that will not deter true visionary leaders who take a long-term view.

3. MAKE IT SEXY

Instant gratification, disruption, the bestseller Hooked and Stanford's Habit Summit all have one thing in common: they are cool. It is cool to disrupt things. The University of Southern California even uses the term to market its business programme: 'The Academy empowers the next generation of disruptors to change the face of society'.

Unfortunately, long-term thinking is far from cool; in fact, it has a rather Victorian feel to it. What is to be done about it? The answer is straightforward: we have to make long-term thinking sexy. I am not a copywriter or marketer, but it must be possible to come up with an attractive name for long-term thinking. Journalists have managed to make long articles sexy by rebranding them 'long reads' and replacing the word count with the minutes it takes to read an article.

When progress through long-term thinking is sexy, there will no longer be any need for secret meetings. Business degrees will advertise the benefits of learning about 'long-termism'. There will be TEDx conferences dedicated to the topic and thousands of management books on Amazon to help aspiring long-term thinkers.

What business long-termism could really do with is its own Alain de Botton. This Anglo-Swiss philosopher, writer, and television presenter has made good old-fashioned philosophy sexy with his School of Life. Who would be the Alain de Botton of long-term business strategy thinking? It is unlikely to be Larry Fink or Warren Buffett. Perhaps they could organise a talent show for long-term thinking called The Think (instead of The Voice) to produce some long-thinking stars. Is it such a bad idea? Maybe it just needs a little bit more thought.

The day is still far off that long-term and short-term thinking will reach some kind of equilibrium, and that all executives will consider both disruptive change and progressive, incremental change. Even so, long-termism is a powerful idea, offering solutions to some of the most intractable governance and strategic challenges facing businesses today. So while it may not be the topic of degree courses or regular columns in the FT, as in any Dan Brown novel, it would be a mistake to underestimate ideas cooked up at secret summits.

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