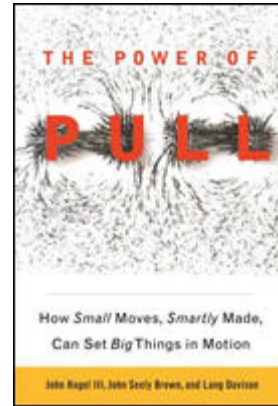


# Short-Term Trends Rule the Day in an Unpredictable Recovery



*Play the short game – or the long one?*

With a recovery tentatively underway, many executives are trying to ride the wave of short-term economic trends, making minor strategic adjustments to go farther, faster. Is this the right approach, or should you be looking beyond the immediate recovery to focus on longer-term trends that are reshaping business today?

Here's the debate:

|  | Point   | Counterpoint  |
|--|---|---|
| <p><b>The short term is all we can plan for right now.</b></p> <p><i>"If we miss the recovery, we're going to be at a disadvantage."</i></p> | <p>We got into trouble because we didn't pay attention to short-term trends. Let's not make that mistake twice.</p>               | <p>Short-term trends may have tripped you up, but the trouble started long before that. Profits have been deteriorating for years – for nearly everyone. It's time to face the long-term reality.</p> |
|  | <p>Our investors are looking only at whether we can meet our quarterly numbers. That's all that matters.</p>                      | <p>It's true – investors may be focused only on the short term. And it may well be easier to stay on the short-term path. But easier isn't always smarter.</p>  |
|  | <p>The business environment is filled with too much uncertainty. This is the time to move smartly on near-term opportunities.</p> | <p>What if driving short-term performance improvements cuts your legs out from under you over the long haul? You have to come to grip with strategic challenges. They're not going away.</p>          |

|   | Point   | Counterpoint   |
|---|---|--|
| <p><b>The long game is the only game.</b></p> <p><i>“Focusing on the short term will only get us through the short term.”</i></p> | <p>Don’t look to instincts – look to the numbers. Return on assets has been deteriorating for years, with no evidence that it’s turning around, or even leveling off. We’re not just running faster to stay in the same place – we’re running faster and losing ground.</p> | <p>So what? These are gradual trends and if you don’t figure out how to deal with short-term challenges first, you won’t be around to deal with the long term.</p> |
|   | <p>If we don’t address long-term challenges, one of our competitors will.</p>   | <p>Everybody’s under the same pressure you are and there’s no evidence that anyone else is taking the long view. Stay the course.</p>                              |
|   | <p>There are always fires to put out – but there’s also a rumbling volcano on the horizon. Pay attention to that one.</p>   | <p>You can’t let short-term fires burn out of control. If you don’t make it past the little fires, you’ll be in deeper trouble.</p>                                |



## My take

### John Hagel, Co-chairman, Deloitte LLP Center for the Edge

It’s not just the economy that seems to be inching back into a recovery these days. Most of the executives I talk to lately are also in recovery mode, emerging from the bunker mentality that has marked their every working day for the last year or two. They’re looking at new opportunities and trying to make sense of the new reality that has emerged. A few are already in M&A mode, bolstered by the feeling that they are once again on firm financial footing for the long term. As a group, they’re focused on seizing short-term opportunities before they disappear.

I understand that. There’s definitely a place for mining short-term opportunities to support future growth. But too many of the people I talk to are doing this at the expense of building out their long-term strategy. I don’t want to strike too grim a note, but it’s simply a fact that long-term trends are working against us. In our recent book, *The Power of Pull*, my coauthors (John Seely Brown and Lang Davison) and I summarize the metrics we developed for the Shift Index – the first attempt to quantify the longer-term trends that have been reshaping the business landscape over the past four decades. Of the 25 metrics in the Shift Index, one in particular stands out: return on assets for all public companies in the US. Since 1965, return on assets has collapsed by 75 percent - a sustained and substantial erosion in performance. Just as bad, there is no evidence of any flattening of this trend, much less turning it around.

What does this mean? It provides strong evidence that any “recovery” is merely a short-term relaxation of pressure and that there will be no “back to normal.” We often hear executives talk about the “Red Queen” effect, where they feel they are running faster and faster to stay in the same place. The actual situation is far worse: we are running faster and faster and falling farther and farther behind. There is no reason to believe that the long-term performance erosion will not continue.

The key question is what to do about it. Market economies are generally successful in spawning innovative new approaches to overcome existing performance pressures. That has not yet happened here. The fact that this trend has continued over such a long period suggests that the causes of the performance erosion are deeply embedded in our current management practices and institutions.

Companies need to first recognize how the sources of value creation have shifted. In the past, economic value creation was built around a company's ability to "own" knowledge. Today, the key to creating more value is rooted in the ability to participate in a growing number of diverse knowledge flows, to more rapidly replenish the company's knowledge reserves. This is closely related to the pull approach, which seeks to develop scalable pull platforms that amplify a company's ability to draw out the right people and resources – when they need them, where they need them.

To be sure, for most companies these are very big steps that will require major changes in the areas of management and organization. But the option – ignoring long-term trends and hoping for the best – isn't really an option at all for companies that want to come out on top in the long run.

## A view from the Technology sector

**Eric Openshaw, Vice Chairman and U.S. Technology Leader, Deloitte LLP**

It's tempting to think that technology companies are immune from many of the long-term trends John outlined above. In fact, many of the technology executives I talk to believe that the products and services they are developing will play a key role in helping other companies find a way to prevail over those trends, by delivering better information for decision making, deeper insights into historical trends and patterns and a clearer view of the road ahead. Disruptive technologies like cloud computing are already offering support for this view.

Plus, many technology companies face enormous pressure to show strong short-term performance. It's easy to feel that you're living from quarter to quarter in the tech industry, where companies are expected to top themselves time after time, regardless of market volatility. In this environment, it's important to translate long-term goals into quarterly, weekly and even daily performance measures.

Some short-term opportunities are virtually irresistible. For instance, continued volatility is having an impact on valuations, making acquisitions attractive. But technology companies have to remain agile if they want to take advantage of near-term opportunities like these. For the companies involved, the challenge is to strike the right balance between long-term objectives and near-term opportunities.

Five years is as far out as many of the executives I work with can see – if that. So it's no surprise that many of them don't believe they can afford to think about the long game. I'm not telling my clients to stop taking advantage of short-term opportunities. But they need a long-term game plan – even if it only extends out a few years- to set the context for every short-term decision they make.

For further information, please visit: [www.deloitte.com/us/debates/powerofpulldebate](http://www.deloitte.com/us/debates/powerofpulldebate).

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