

## Leadership for the Long Term

Thank you so much for this tremendous honor, and thank you to Larry for that very kind introduction and for your partnership and mentorship in long-term leadership. And of course, thank you to the FPA and Noel. For nearly a century now, the Foreign Policy Association and its predecessor organization the League of Free Nations have engaged, inspired and informed the citizenry. From its origins as an advocate for the League of Nations, to the tens of thousands of votes in the Global Decisions ballots, the FPA has played such an important role in giving citizens a voice in Foreign Policy. At a time when belief in both the benefits of global engagement and in the value of expertise and fact-based analysis seem to be in retreat in much of the world, your dedication to these enduring values could not be more important.

What I want to talk about today is leadership – and in particular, what is expected and demanded of us as business leaders in this age of uncertainty in which we live. Tumultuous times of course call for bold leadership from every sector, including politicians, civil society and the media. But my message tonight is directed to my fellow business leaders, who fill this room and among whom I count a number of good friends as well as many McKinsey colleagues. If I leave you with one message tonight, it is that we all, as business leaders, need to step up and lead much more than we have been to tackle the challenges facing society – and do so with a long-term orientation that drives inclusive and broadly shared growth. We need to lead for the long-term.

I will start with a confession: I have always considered myself an “Adam Smith capitalist.” And I consider us at McKinsey to be the “Jesuits of Capitalism”. But that requires a bit of explanation, especially for those who associate the author of *The Wealth of Nations* with the latter-day doctrine that professes strict adherence to shareholder value—a belief encapsulated in Milton Friedman’s famous line that “the business of business is business” and that the only social responsibility of a business is to “increase its profits so long as it stays within the rules of the game.” I would argue that these folks need to revisit their history. Here’s a sample of what the founding philosopher of capitalism wrote in his 1759 work, [\*The Theory of Moral\*](#)

*Sentiments*. “All the members of human society stand in need of each other’s assistance, and are likewise exposed to mutual injuries,” said Smith. Should circumstances require it, he added, “the wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest.” Smith understood that for capitalism to thrive, capitalists needed to take a broader view of their role in society – and indeed to *lead* when it came to fixing the ills that face their compatriots.

It is not much of a challenge to find these ills in our society today. In a much-noted article last month in *Commentary*, “Our Miserable 21<sup>st</sup> Century,” the economist Nicholas Eberstadt noted that Western economies in particular have witnessed “an ominous and growing divergence between three trends that should ordinarily move in tandem: wealth, output and employment.” That divergence—and the subsequent rise of income insecurity and loss of jobs—has understandably fueled much of our recent political discontent.

Given this backdrop, what is our obligation as business leaders to the public interest today? I believe there are three core imperatives.

First, a core part of our mission must of course be to build and run great companies. But the best way to do that, as Larry and I and many others have been advocating in recent years and as Larry is doing at BlackRock, is to focus our companies on the long-term – taking a mindset where success is measured not by hitting next quarter’s numbers but by generating value creation over decades – and in a way that builds not just shareholder wealth but grows the economy in an inclusive way and provides quality jobs for workers. **Long-termism is good for business, good for employees, and good for society – and so leading with a long-term orientation is the first of my three imperatives. Businesses must be built for the long-term.**

We now have real evidence that shows that a long-term orientation to leading companies delivers superior outcomes. A recent comprehensive study of 615 large public companies conducted by our McKinsey Global Institute in cooperation with FCLT Global last year found that from 2001 to 2014, companies that focused on managing for the long-term as identified by our Corporate Horizons Index on average increased their revenue by 47% more

and earnings by 36% more than others in their industry groups. Over the same time period, long-term companies ended up investing almost 50% more in average annual R&D spend. And the returns to society and the overall economy over this short period were equally impressive. By our measures, companies that were managed for the long term added nearly 12,000 more jobs on average than their peers and saw their market capitalization rise faster. We calculate that U.S. GDP over the past decade might well have grown by an additional \$1 trillion if the whole economy had performed at the level our long-term stalwarts delivered — and generated more than five million additional jobs over this period. Beyond this, it is because business have invested in R&D and in the long term that we are able to enjoy innovations as diverse as cars, smartphones, and life-saving medical equipment. In fact, some organisations have managed to start this transition — 14% of the companies we studied made significant improvements over the 15 years and became long-term oriented. In short, serving the interests of all major stakeholders—employees, suppliers, customers, creditors, communities, the environment—is not at odds with the goal of maximizing corporate value; on the contrary, it's essential to achieving that goal.

**The second imperative is that we as business leaders need to speak out in defense of the system that has been a force for prosperity in the world, and not simply cede the public debate to cynical, anti-business, anti-globalization voices out of fear that if we stick our heads above the parapets, we may well be shot at. We must speak out in support of the free movement of capital, labour and goods that have helped us increase standards of living around the world. We give up the narrative about what we achieved—as well as where we have fallen short—at our peril. We must advocate for the long-term.**

Let's start with this: We know things have gone wrong. Despite the decline in inequality between countries, within many nations income inequality is on the rise, with 540 million people in developed economies experiencing flat or falling real incomes over the past decade. The old reliable engines of economic mobility are also sputtering badly. Unemployment in some European countries remains above 15% — and is over 40% for young people. In the US, economic stagnation in hard-hit parts of the

country has led to outright reversals of gains in health and longevity that none of us expected to see. And continued advances in technology, via artificial intelligence and automation, will further challenge safety nets. No wonder trust in the institutions that form the bedrock of our society – government, businesses and the media – has reached all-time lows in the West. People believe the “system has failed”. Many of us “Davos socialites” have lost their connection with broader society. We view impact as publishing an op-ed in the Financial Times or the Wall Street Journal, ignoring how little that matters to a steelworker facing the prospect of layoff.

Those are our realities today. But stating—and restating them – doesn’t mean we should ignore what’s gone right. The forces of capitalism and globalization have been the greatest engines for prosperity that the world has ever seen. Global GDP has expanded by more than 6 times over the past 50 years, while average per capita income has tripled. Businesses have been on the forefront of this growth and society globally has also reaped the benefits. In just the last 25 years, open markets and technological innovation have lifted more than one billion people out of extreme poverty. MIT economist Daron Acemoglu estimates that the average person alive today is about 8 times richer than a century ago.

We must defend capitalism and globalization for the benefits it has brought and will bring. The answer is not for us business leaders to go into a defensive crouch and quietly advocate for whatever narrow gains we might realize from future regulatory or tax reform and be afraid of being tweet-boned. Instead, we need to increase our public engagement and support long-term policies that increase the odds of fostering more inclusive growth. One compelling opportunity is the right investment in infrastructure – our McKinsey Global Institute estimates that without action, the world is facing a \$350 billion funding gap in much needed additions and upgrades to everything from roads and bridges to sanitation and digital networks.

In the first few decades of the postwar era this kind of advocacy for policies that fostered growth and built vital multilateral institutions, such as the IMF and the World Bank, was seen as part of a chief executive’s job.

While that notion has since gone out of fashion, I hope and expect we are at the dawn of a new era of public service for business leadership.

**This leads me to my third and final imperative: to meet the scale of today’s challenges, it is not enough for business leaders to simply publicly support good policy reforms or oppose bad ones: they also need to step up and, where their capabilities are fit for purpose, play a more active role in addressing unmet social needs. We must act for our society’s long-term.** It’s not enough to know the right answers or do the deep analysis and point to solutions; we need to help deliver them. People are expecting this of us. Richard Edelman has noted what he calls “the implosion of trust” in many of our institutions over recent years, and in particular that trust in CEOs has, in his words, “collapsed.” Why? Because there is a sense that CEOs didn’t step up into the leadership role expected of them as our societal crises came to a boiling point. When people said “Please lead!” CEOs doubled-down on the Friedman mantra and stayed out of the fray. This is not only unwise strategically, but a dereliction of our duty to society to act to solve our most important issues – problems that cannot be fixed by governments or individuals alone.

Let me illustrate with an example. A few years back, we at McKinsey conducted research showing there was an enormous gap between what leaders in the education sector thought they were delivering in terms of their graduates’ skills and capabilities –and what employers said they needed, and were definitely not getting. It was powerful stuff . . . but after making a big noise about the problem for a few years, it dawned on us that our firm could and should actually do something to address it. The result was the creation of a youth unemployment skills-building program called *Generation*, which we helped launch in specific industries across five countries, and which has placed more than 10,000 graduates in jobs since 2015 – and at a far lower cost than existing approaches. Ninety-eight percent of our more than 440 employer-partners say they are eager to hire more *Generation* graduates.

Happily, we are far from the only ones to realize that in the years ahead, it will be critical for business, in partnership with governments and educational institutions, to expand private-sector efforts to provide the skills

training that workers in a dynamic economy need. Lifelong learning that is cost effective and produces results benefits companies and society alike, as corporations such as IBM, AT&T, and many others are discovering. AT&T, for example, is partnering with Georgia Tech and Udacity to offer thousands of its workers the opportunity to develop new skills, like coding – and providing them with transparency into which job categories are growing versus declining so they can take their career trajectory into their own hands and build the skills needed for the jobs of the future. More than 120,000 employees have already completed more than 1.7 million courses.

Innovating our capitalist system to preserve its dynamism is not a job for business alone, especially in an era of rising geopolitical tension and technology disruption. Our political and civic leaders, our researchers and think tanks, organizations like the Foreign Policy Association, all have vital roles to play.

But what we must all start by acknowledging is that in times like these, we cannot assume that the system will somehow “self-adjust”—in either the short term or the long term. We need to think long-term, we need to speak up and advocate, and we need to act. As a devout Adam Smith capitalist, I am confident that by living these three imperatives, we stand our best chance of preserving and strengthening the greatest system the world has yet found to deliver prosperity for all. In doing this, we will truly be leading for the long-term.