In recent years, investors have grown enamoured of FANG firms – Facebook, Amazon, Netflix, Google – and other mostly tech-driven disruptors. Their phenomenal investment returns have pushed financial markets to all-time highs, helped along by an unprecedented environment of sustained low interest rates. The ascent of such stocks has shone a light through the slow-growth, high-debt gloom that envelops much of the post-financial crisis world – even as government and consumer scrutiny grows of their practices and market dominance.

But has the success of these lighthouse companies distracted us from the need to drive growth across the global economy? How can more businesses – both new and established – build sustained success? We argue that the answer lies in a business model that prioritizes long-term vision over short-term financial engineering – one that preserves companies’ core missions and competitiveness, rather than incentivizing underinvestment.

The New Year is traditionally the time when we make resolutions to address our bad habits and shortcomings. Perhaps it’s time for corporations and their shareholders to make their own pledge: to design a more sustainable long-term business model that emphasizes transformative research and development.

Key Takeaways

- Some corporations should make a New Year’s resolution to stop misallocating capital, misincentivizing managers and taking on too much debt
- A better business model would reward long-term vision over short-term financial engineering – preserving core missions rather than incentivizing underinvestment
- Shareholders should insist on proper investment and more R&D, which may be the best way out of the world’s slow-growth malaise

For sustained success, business models should prioritize long-term vision over short-term financial engineering

Let’s Resolve to Build a New Business Model

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A better business model could fix a host of failings

In some respects, the FANGs and their ilk offer some good lessons. Firms such as Amazon famously prioritized operating cash flow over profits – to invest in those endeavours that would help them retain a competitive edge. But we can all play a part in ensuring that stellar growth is not the preserve of only the few, and a good place to start would be with these all-too-common failings:

1. Misallocation of capital
Zero and negative interest rates have arguably prolonged excess capacity and prevented well-run firms from seizing an advantage over the over-leveraged. As a result, access to easy money has created legions of zombie banks and zombie-like borrowers. Fortunately, the gradual normalization of monetary policy should make it more expensive to fund these broken institutions. As investors, it is important to be on the right side of this shift.

2. Wrong incentives for managers
Instead of making wise capital expenditures, too many management teams are incentivized to conduct stock buybacks that inflate their stock options. Yet share buybacks can actually diminish medium-term returns by starving investments that boost competitiveness.

3. Zero-based budgeting that encourages underinvestment
Starting budgets from scratch every year to justify expenses frequently turns into a pure cost-cutting exercise. In turn, this can encourage companies to underinvest in the essential fabric of their businesses – especially their people – while over-accentuating their cash flows to service their enormous debts. Running businesses efficiently should never be confused with running them for cash.

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4. Growth powered by excessive debt
Since the 1980s, a credit boom has fuelled the world’s growth – with the knock-on effect that we collectively over-consume and under-save. Someone must repay the world’s sky-high levels of debt – otherwise we risk defaulting – but who will shoulder the burden? High-earning baby-boomers are retiring and millennials are struggling to enter the marketplace with good jobs and affordable housing.

Shifting from short- to long-term thinking
To fix such deeply ingrained problems, the world clearly needs a new business model that emphasizes decisions taken for the long term, not the next few years. Myopic thinking is leading to ever-shorter corporate lifespans: research by Credit Suisse indicates that the average age of an S&P 500 company is less than 20 years – down from 60 years in the 1950s.

Is it any wonder, then, that so many R&D efforts seem to be designed for short-term payoffs? Instead, governments and companies need to step up their commitment to fundamental research to create the kind of seismic shifts in innovation that are socially, economically and environmentally transformative. Our analysis of productivity’s decline shows that an R&D-focused approach may be the only way to escape the current slow-growth economic trap.

Championing change from boardrooms and ballots
It may sound radical, but a wholesale shift in thinking would in fact be welcomed by both electorates and shareholders alike. Voters know that economic change takes time, and they are crying out for political leaders who have a vision of the future. The boardroom seems to be the perfect place to start making this switch. As owners of their companies, shareholders can insist on good corporate governance and reward smarter decisions. They have the power to encourage initiatives that emphasize R&D and boost long-term competitiveness – not balance-sheet manoeuvrings designed to inflate earnings and stock options.

If solving some of the world’s big problems requires thinking longer term and behaving more responsibly, perhaps we, as shareholders and voters, should resolve to model the behaviour we would like to see. Sounds like the perfect resolution for the New Year.

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