How to Balance the Short and Long Term

By Andrew Bass, Ph.D.

(Elements of this article appear in Chapter 9 of my book: *The Performance Paper: Incisive Briefings for Busy Leaders*, published by Bookshaker, and available here: www.bassclusker.com/the-book).

Jack Welch, celebrated former CEO of GE, once observed that anyone can run a business for the short term if they don't have to worry about long-term survival, and anyone can strategise if they never have to implement.

The trick is to do both at the same time. But of course it's easier said than done.

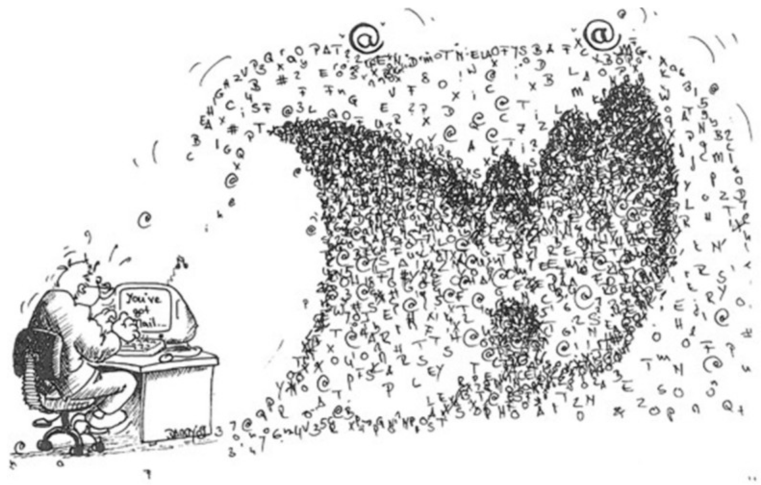

Figure 1: The pressing demands of the moment.

Clearly we can't let our in-boxes determine our futures. For example

- What if your loudest-shouting client is not a very profitable client? Actually, particularly in professional services, they could well be actively unprofitable (be careful before you do the sums, it can make the partners a bit antsy!).
- What if you have a large steady client who you rely on and they disappear? One successful firm I worked with in financial services had relied on a steady stream of work from one huge client (and a few minnows) for twenty years: their sales process basically amounted to responsive order taking. That stream of work was soon to dry up forever and we had to figure out a very different strategy if they were to survive (which they did, I am happy to report).
- What if the product or service which made your business's name is simply coming to the end of its life-cycle or is being superseded entirely? If it can happen to Research in Motion (makers of the BlackBerry) then it can happen to anyone.

These and a number of other common reasons mean that you can't abdicate responsibility for your long-term course to the process of simply responding well to current demands.

Getting a handle on the short-to-long-term tension

A simple and valuable tool for getting a handle on this tension is the Three Horizons[1]:

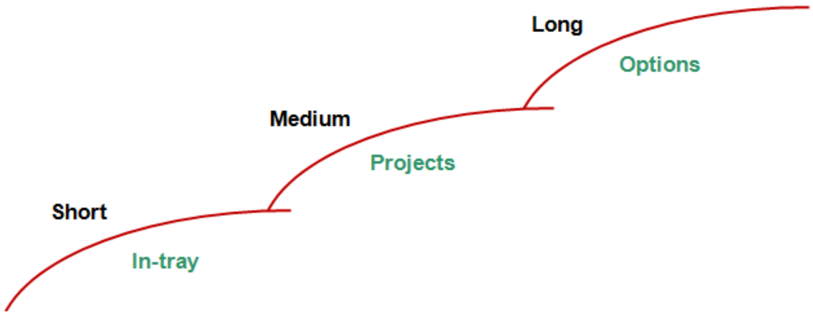

Figure 2: The Three Horizons, adapted from Baghai and colleagues

In essence the Three Horizons framework proposes that we think about business timing in terms of:

- A short horizon where the concern is about profit and cash – it's all about creating operational efficiency, current customer satisfaction etc.

- A medium term horizon about a committed effort to grow a new business, work stream or client relationship. The emphasis is on the top line. In time, this business should become established, repay investment, and then take its place as a new short-horizon activity.

- A longer term where you develop options, exploring possible future growth activities, and sort out the great ideas from the merely good ones with pilot projects and experiments.

It's crucial to realise that you don't wait to finish horizon one before moving on to horizon two or three – in fact *all three require some action now*, and on an ongoing basis.

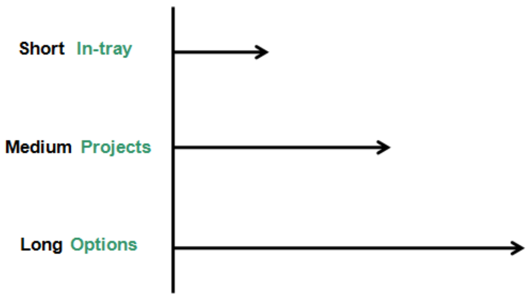

Figure 3: All horizons have the same starting point: *today*!

[1] formulated by Baghai and colleagues in *The Alchemy of Growth*

Many firms give much less urgency to the “long” horizon than they should, for example, and leave themselves opens to threats from more imaginative competitors.

The projects at each horizon form a pipeline which can be managed with discipline to ensure sustainable success over the long-term. In an insightful interview in the CNBC’s *The Leaders* series, much-admired former Reckitt Benckiser CEO Bart Becht makes it clear how his company systematically creates and commercialises new products in a way which follows exactly this process.

The Three Horizons is a great diagnostic for a business’s ability to manage the tension between running the business and building the business. There are eight possible configurations, and the goal is to have a tick at all three levels.

Here are some of the patterns which can occur, along with possible interpretations:

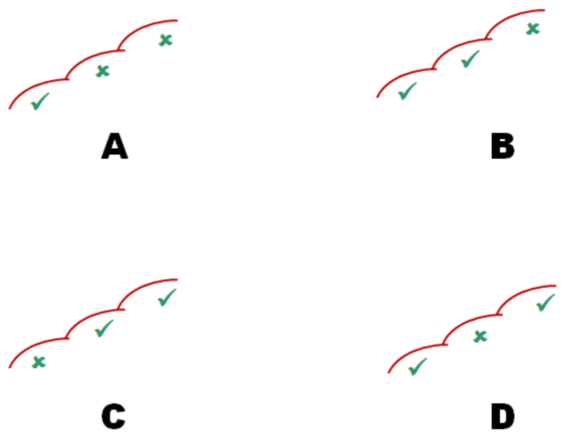

Figure 4: Some possible Three Horizon configurations

- A is complacent. They may be fine as long as nothing changes - but things change.

- B is much better off than A, but *may* be overly committed to one plan or be too trusting that the future environment will continue much like the present.

- C, in the language of Baghai and colleagues, is losing the right to grow. They are more excited about the future than the present and are neglecting their existing commitments.

- D is competent at their present responsibilities and has great ideas, but fails to bring these ideas into fruition. A classic corporate example is Xerox, who invented all the key elements of the modern PC (windows, mice, pull down menus etc), but left it to Apple to bring them to market. Among competent businesses that I see, this is often the pattern which is keeping savvy executives up at night.

Questions to discuss with your team:

The great value of simple frameworks is that they move your conversation forward, which is welcome if you've been going in circles. Here are three questions to bring to your leadership team:

- What is the current state of the business at each of the Three Horizons?
- What evidence are we using to make our diagnoses?
- What needs to happen, given our answers?

You can have your cake and eat it, but not at the same time

Perhaps *the* key question that all strategy techniques aim to answer is this: "Of all the things we could be doing, which we should be doing?" We have all experienced the problems of trying to pursue too many avenues at once.

A major cause of difficulty is quite simply fear of missing out on a good opportunity, which leads to starting lots of projects. But the big danger – the one that a strategy is supposed to prevent in the first place – is that by trying to do too many things and hedge too many bets, effort is diluted to the point where although you are busy, you don't earn an overall return.

Of course, once people get together in meetings, everyone has their pet ideas about what to take forward. The Three Horizons can be a great device for transforming disagreements into a constructive discussion. Instead of arguing for X versus Y, it's much more productive to discuss questions such as:

- Should we do this now, or is there something that would be better done first? (Successful internet businesses have done this well. Amazon figured out bookselling, and Google figured out search, before capitalising on what they had built and extending their offerings.)
- Can we actually build the capability for Y by doing X? (Honda built its vast capability in engines for all sorts of applications by starting with a clip-on motor for push bikes, then building scooters, then compact cars, then racing cars, lawn-mowers, boats, sports and executive cars and so on.)
- If we tackle this item on the middle rather than long horizon, do we have enough resource to keep the short, medium and long plates spinning at the same time? (Bringing growth plans forward too quickly can cause people to take their eye of the day-to-day ball: People Express Airline, which invented the low-cost model exploited by the likes Southwest, Ryanair and EasyJet, went up (and came down) like a roman candle because in the rush to grow new routes, it let customer service slip and damaged its reputation beyond recovery.)

From Three Horizons to an Implementation Timeline

The three horizons provides a clear bridge between *strategic thinking* – in which you decide what and who to sell to, and why your position will be competitive – and planning – in which you choose and sequence the actions required to bring your strategy to fruition.

In any one time period – a quarter say – you will need to give attention to activities on each of the three horizons. A useful debating point is the question of what percentage of time and other resources should be allotted to each.

For example, you may decide that 70% of your effort should be on the activities which drive short-term performance metrics, 20% should be expended on pursuing middle-term milestones, and 10% should go toward investigating long-term questions. Clearly, the percentages depend on your individual business circumstances.

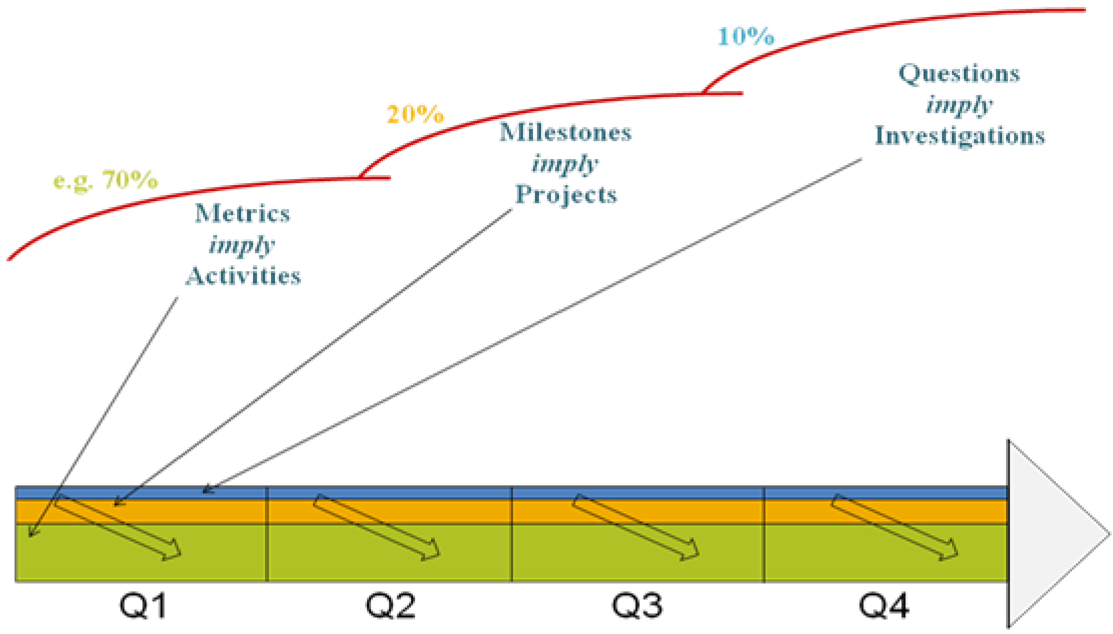

Figure 5: Linearising the three horizons into calendar time

Once you have agreed the numbers and have allotted times to the required steps, you have an easy-to-grasp display which clearly relates activity to continuing viability and growth of your business. You can look back over the last period and see if you indeed did what was required, and look forward to put in place the required plans for the next period. I have clients for whom this is a standing agenda item at management team meetings and they find the dynamic quality of the framework provides an invaluable balance of discipline and flexibility as they review the health and progress of the enterprise.

Visit www.bassclusker.com for further articles, insights and tips, and to learn about Andrew's book, The Performance Papers: Incisive Briefings for Busy Leaders.