



VIEWPOINT

MAC VAN WIELINGEN:
FRASER INSTITUTE
FOUNDERS' AWARD SPEECH

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For additional information, contact:

Viewpoint Group

4301, 400 3rd Ave SW

Calgary, Alberta T2P 4H2

T: 587-393-8466

info@viewpointgroup.ca

www.viewpointgroup.ca



Mac Van Wielingen

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Acknowledgements and thanks to the Fraser Institute, my current and past partners at ARC Financial, ARC Resources, and Alberta Investment Management Corporation (AIMCo), my work associates in our family office, Viewpoint, my friends present here this evening, and all my family members. Special acknowledgement and deep thanks to my wife, Susan.

I am honoured and grateful to receive this recognition.

I told my wife Susan that what I am speaking about tonight is so large and complex that there are multiple entry points for questions and challenges and criticism.

And she said “Good, get the conversation going, and give them something to think about.”

So that is what I hope to achieve this evening. To encourage more openness and thought about one of the most fundamental and controversial issues of modern times relating to the role of business in society.

But first, I want to start by sharing something whimsical and personal, but which is relevant to my talk tonight. It is an inner feeling that I realize I have always had throughout my life, and that is that I don't know really what is going on!

In my first report card in grade one the teacher made only one comment: “Mackie tends to listen quietly during discussion, sometimes asking questions and then summarizes for everybody.”

It is quite funny, because nothing has really changed, I still do that, and I know exactly how I felt then, as it is the same way I feel now! I am always asking questions because I am almost always somewhat uncomfortable that I don't know what is going on.

But over the years something did change, and eventually I realized that most of us, most of the time do not know what is going on!

Most of the time we see part of the story but “not the whole story.” I came to understand that this reality is the result of two problems.

1. One problem is the complexity of the world.

In business, we are making decisions committing resources and taking risks within the complexity of ever moving, changing, interconnected fundamentals each of which can have a material impact.

Examples are the somewhat shocking impact of disruptive technology, and the on-again, off-again availability of capital.

2. The second problem is that we interpret “what is going on” wearing lenses, which often creates distortions.

Our perceptual and cognitive processes contain pre-set mechanisms, cognitive short-cuts, heuristics, biases, and quick reactive, often faulty logic, all of which can be understood as a defence against complexity.

Often these short-cuts are reactive simplifications, otherwise complexity can seem overwhelming. Relevant common examples are: the status quo bias, (the preference to stay with the familiar), or group think (the tendency to conform to group values or perspectives).

There is also the power and pervasiveness of what researchers call “motivated cognition.” “.... we are not seeking objective understanding, we are seeking evidence that supports what we want to believe is true”.

This evening I am going to challenge one over-arching simplifying belief which is very familiar to all of us, and quite frankly which most of us reactively defend.

Firstly aside from my personal sense of not knowing what is going on, what does the research say about the reliability of experts who claim to know what is going on. A famous study by psychologist Philip Tetlock involving 284 experts and 28,000 forecasts concluded:

- Experts are not only usually wrong;
- They do no better than chance;
- They do no better than non-experts; and,
- There is an inverse relationship between the stature of the expert and forecasting accuracy.

He also concluded that the worst forecasters were those who had deep convictions of a single big idea which would dictate the probability of outcomes.

There is one single big idea within business that has become institutionalized, which does not conform with reality, and is a partial and limited truth that needs to be challenged. *It is that the sole purpose of business is to maximize profit.*

This famous economic dictum does not conform with the realities of decision making within business. It is misleading, and I believe it is doing us harm.

Before I go further, I want to ask ourselves a difficult and confronting question. Where is the evidence that we as business leaders know “what is going on?” Is there not an implicit assumption that we are experts in our own industries and in business generally?

How good are we at seeing the future of market conditions, the impact of technology, the impact of policy changes, changes in capital markets, and so on. To what extent do we fall prey to the “status quo bias” or “group think” or “motivated cognition?”

The answer is a bit depressing, but there are some facts that are at least consoling. For those of us in the corporate sector in Alberta, if misery loves company, we are not alone.

The empirical evidence is vast and clear. Most businesses within most sectors of the economy hit the wall of underperformance within 5-10 years and are sold, merged, restructured, refinanced, go dormant or are shut-down, and similarly most CEO’s are out within this same time frame.

Instead of describing all this research I'm going to offer a few quick quotes from three great thinkers:

Clayton Christensen named the most influential business thinker in the world, states: *“at best, one company in 10 is able to sustain profitable growth the odds of success are frighteningly low.”*

The esteemed researcher and writer, Jim Collins has a great expression which I often quote, even the most successful businesses face the ever present *“creep of impending doom.”*

The last great thinker I want to reference is none other than Woody Allen. I often use this quote as a defence when people are accusing me of being unduly pessimistic or paranoid. I will agree that I am paranoid, if you will agree with Woody Allen’s definition of paranoia and that is *“simply knowing all the facts.”*

The performance challenge within business is pervasive, we all sort of know this because of our own struggles and a few headlines about the struggles of other companies. But most of us don’t see the big picture, the “whole story” that most businesses eventually underperform and fail.

Based on this reality, based on “knowing all the facts,” it has to be true that most of us decision makers in business, don’t really know what is going on!

This is a humbling realization, but it may surprise you to hear me say that this is not a negative view. I honestly have to tell you, I see all these facts as the basis for incredible optimism!

If we can see the realities clearly, if we can see, “what is going on,” we then have the opportunity to develop our organizations differently, and we can make different choices.

The performance challenge can be framed in the context of understanding the purpose of business, any business and all businesses.

As I said, the over-arching simplification which has become institutionalized, that needs to be challenged, is that the sole purpose of business is to maximize profit. This is like a sacred principle within capitalism. It is an essential truth. I want to say that very clearly, but it is “not the whole story”, and unfortunately as I said, it is seriously misleading. It does not describe the actual reality of decision making from the perspective of being within a business and building a business.

There is no single variable, there is no objective function as economists like to say that can be maximized, and which represents the purpose of a business. It would be nice if this was true, as business would be much easier, and perhaps there would be much less failure.

We are not maximizing one variable, we are combining, making choices, trading off and optimizing among four variables: *profit, risk, time, and human experience*.

Profit-seeking always occurs in the context of uncertainty and risk, it always occurs over a timeframe, and always involves human experience. These are realities. Profit is imperative. Without it a business will not survive, but as a single end point in itself, and as a single principle to guide business decision making, it is insufficient.

There is a certain point where I will say no to potential profit if it involves too much risk; I will say no to a short-term gain if it involves compromising our long-term future; and I will say no to profit if it undermines human safety, ethics, or the respect and dignity of others. We are not simply maximizing profit. The whole picture is more complex.

It is relevant that these variables of risk, long-term sustainability, (including environmental sustainability), and social value are hot issues among corporate directors and researchers of strategy and governance.

- How do we integrate risk into strategy?
- How do we integrate sustainability into strategy?
- How do we integrate social value into strategy?

The answer is that these fundamentals represent essential desired outcomes that must be explicitly integrated into purpose right beside profit, and then strategy is constructed to serve purpose, to serve and satisfy these four essential desired outcomes, these four imperatives of purpose.

In this sense, we are not profit driven. We are purpose driven.

It is highly relevant to see that these fundamentals of risk and stability, sustainability, social value, ethics and human development are also hot issues within society today. When we say our sole purpose is profit maximization, not only is this turning a blind eye toward the realities within which profit is created, it is also morally diminishing.

We are declaring to the world, to all stakeholders, to our employees, and to our customers, that their interests, and other wants and needs within society are subordinate to the singular dictate of profit maximization.

This is an uncomfortable realization - that our own definition of our own purpose is morally diminishing. I am arguing that this is not necessary. We are hurting ourselves. We are sub-optimizing the true role of business in society, and our true role as business leaders.

1. Profit Seeking and Risk

Consider profit seeking and risk in the context of financial markets. Public and private markets pay more for an income stream that is predictable (for example fixed income from bonds versus less certain dividends and capital gains from equities). This is one of the most fundamental operating principles within financial markets.

There are two variables at work, not one. Financial markets trade off expected profit and risk. How can we say that the sole driver is profit maximization?

From a related perspective, what I am arguing is consistent with sound investment management principles. At AIMCo our clients set risk at the highest level, where it is material and strategic, through asset allocation (equity, credit and bonds and through a diversification commitment). Returns are then pursued within a pre-set level of risk. Establishing a pre-set level of risk, strategic risk, is arguably the first priority of both investors and corporate directors, versus chasing profit.

2. Profit Seeking and Time

As we allocate limited resources we are also always trading off investment dollars and profit expectations along a continuum of time: the short-term vs the long-term. Successful companies are building towards the future, which means incurring expenses and investing in ways that will increase the long-term survivability and sustainability of the organization.

An extreme high-profile example of this is Tesla. It now has a market capitalization roughly equal to GM, and it has not yet generated a profit. It is the product of an extraordinary commitment to the long-term. If you are stuck in the frenzy and urgency of the short-term, you may feel like the long-term is an indulgence. Who has the time for it? “I am too busy getting things done”.

You may never truly commit to develop the assets, organizational capacities, and resiliency that will serve you in the long-term. At both ARC Financial and ARC Resources, and now at Viewpoint, we were and are explicitly long-term committed at the outset to “build our companies to last,” to use an expression from Jim Collins.

3. Profit and Social Value

Business decision making gets even more complex in the context of the fourth variable.

As we pursue profit there is always a human experience. There is your own experience, your work associates and employees, your customers, and others who are impacted by your business. We are not just financial enterprises; we are social enterprises.

We are already in the culture and social value business, yet many resist this reality, thinking or imagining that we are just financial entities. In its simplest form, social value involves including and embracing the experience of all with whom we have immediate and direct contact. Unless the quality of human experience, including honesty and ethics, is central within purpose, we will never create a powerful culture where people can thrive and flourish.

Now, I was told that I need to speak more bluntly on this point and I will: Most people don't like their jobs, most are disengaged, and many will even say they hate their jobs!

The causal factor based on the research usually relates to the quality of the relationship we have with our bosses. And I know some of you have heard me say before, but I can't resist saying it again ... The problem is that most bosses are boss-holes!

So, you are operating in a highly competitive demanding environment and you have boss-holes leading dispirited people. How can you expect to survive, let alone build a great business?

It appears that boards of directors are finally understanding this. An article in the Wall Street Journal last week was titled: “Boards Wake Up to Company Culture.” In this, there is a quote from a soon-to-be released study: “Oversight of corporate culture should be among the top governance imperatives for every board.”

Yes, culture needs to be a top governance imperative and so does profitability, strategic risk, and long-term sustainability. Governance needs to be aligned with purpose.

4. Profit Maximization as a Sole Purpose and Downside Risk

Profit maximization as the sole purpose of a business leads to a mindset and behaviours that actually work against success. What does it look like to turn a blind eye to risk, to be excessively focused on short-term results, and to be aggressively self-serving? Sadly, there are many corporate examples, but the largest high-profile example of what I am talking about is the 2008 financial crisis.

The best way for me to speak to this is to tell a little story about a conversation I had with the Chair of one of the major Wall Street firms in late 2008.

This will lead to my last point.

We were having a conversation about the market collapse and the expected response of regulators.

Towards the end, I asked him: "so what in your opinion really happened?"

He said: "We lost our way. We sacrificed our long-term client focused principles and succumbed to reckless short-term greed."

I asked, "Are you saying this publicly?"

He said, "NO, not a chance."

I asked, "Why not? most people already know this anyway" and he said quietly "because my fellow executives won't talk openly like this." As he said this he kind of shrunk and looked dejected and (I thought) demoralized.

On a personal level, this was a turning point moment for me.

I realized that as business leaders we need to find a firmer moral ground to stand on to embrace our responsibilities, and from which to speak out.

This inspired me to participate in the creation of the Canadian Center of Advanced Leadership at the Haskayne School of Business, dedicated to ethical leadership and purposeful, performance-based leadership.

In conclusion, I have this perception that the voices of business leaders have become defensive, somewhat quiet and lacking in passion. I believe that the tendency to embrace a narrow, simplified belief of the purpose of business has constrained us, it has held us back. Our role is much larger.

We are stewards of society's capital, of society's savings no less. If you think of time as a resource, we must see ourselves as stewards for the long term for our organizations, and for all that we touch and impact, including all people with whom we have contact.

This is complex and it is truly an enormous responsibility.

I believe that living this broader understanding of purpose is the path to building great businesses.

I know this is true. I have seen the results.
