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SUBSTITUTING THE SPIRAL FOR THE PENDULUM

It's true, as everyone says, that history advances in cycles. There have always been short cycles; there have always been long cycles. There have always been cycles of war and peace, business cycles, cycles of ascendancy and decline, cooling and warming climate cycles—the list is almost endless. Some folks may even remember the brief but extensive popularity of the *Kondratieff Wave* theory. It said that capitalist economies tend to have long cycles of expansion, inflation, and recession, repeated every 54 years. Both the ancient Mayans and the ancient Israelites believed in 50- to 54-year cycles of catastrophe and renewal.

This cyclical motion is usually described as a pendulum. The mental image we have of cycles is that, whatever the object of attention, activity goes in one direction for just so long—perhaps too long—and then it swings back, past center, to its original point, and then the process begins all over again. You have an idea of what “normal” weather is, and when you see the pendulum swing too far to the cold or wet, you expect it will swing all the way back at some point to hot and dry, with most activity being around the center of the arc of the pendulum's swing.

When a society's emotions swing too far to an extreme, you anticipate a correction and a swing back to center and then to the opposite extreme and then back again. When stock prices rise dramatically and then fall dramatically and then rise and fall, over time you expect the same conditions to prevail, causing the pendulum to continue swinging back and forth around some central point that represents true value. And when the political center swings to the left for some time, you expect it to swing back to the right for some time, and then left, and then right, and so on.

Because you have become accustomed to seeing cycles as pendulums that swing out and then swing back along the same arc, you can become trapped in that image. If you look through alien eyes, however, you can see clearly that things cannot possibly retrace their path back to where they have been. That is because the context has changed. Places are not the same, people are not the same, nothing is exactly the same as it was before.

The Heisenberg Uncertainty Principle says that even in a laboratory, you cannot precisely predict outcomes; all you can have is probabilities. It also says that you cannot perform the same measurement twice and get the exact same results the second time. It is impossible to replicate with absolute fidelity the exact conditions under which the first measurement was taken. Physics has proven that the act of observation itself changes the outcome.

Away from the laboratory, in the more amorphous and abstract worlds of social, economic, and political interactions, you can be sure that we'll never go back to precisely where we were.

But people have gotten used to the pendulum analogy. Comfort with it creates a kind of mental laziness, so that we actually see pendulums even where they don't really exist. A better model, as observation through alien eyes would reveal to us, is a *spiral*. Cycles do exist, but things never reverse themselves along the same path, and they never arrive back at the same place. They spiral up or down because the original point of departure is no longer there.

Example #1: The Social Fabric

In recent years, a number of marketers have noted what they see as a return to romance. They have observed in popular culture a more positive focus on romantic love, more people staying together, more belief in living happily ever after. During the last years of the 20th century, there was an increase in the marriage rate and a leveling off of the divorce rate in the U.S. Does that mean we will go back to the romantic ideal embodied in the love story films of the 1930s?

Even if we wanted to, we could not. Changed attitudes toward sex, changed roles of women in society and in the economy, the changed nature of relationships between men and women, wars, more education, and much more information, cynicism, and skepticism—all these mean we cannot possibly re-create, no matter how much we might try, the idealized romanticism of 70 years ago. Thus, while bridal gown retailers may see a renewed desire for traditional and elaborate gowns, stress management counselors and etiquette consultants can look for a boom in planning the wedding around stepchildren and stepparents, a product of the divorces and remarriages that have preceded many a modern wedding. Women who marry after their early 20s already have household goods, and frequently, so do their prospective bridegrooms. Often, these couples ask for experiential gifts rather than material ones. That opens up different avenues for advertisers and different markets for everything from spas to museum memberships.

Because change affects everything, the notions of living together out of wedlock, “starter” marriages, “starter” homes, and even “starter” children in the form of pets all create billions of dollars of shifts in consumer spending. As romantic love spirals continually onto new planes of relationships, businesses that neglect the newness and see only the pendulum swinging back lose out on all the possibilities created by shifts.

Recent years have seen an upsurge in religion, particularly in the U.S., but also among young people in other parts of the world. Does this mean our society will again be dominated by the unquestioning religious fervor that characterized America in its early years? No. One little fact can illustrate how different we are from that past. Religious adherents in America today, as surveys show us, are more tolerant of those who belong to other faiths than they ever were before. According to a recent Gallup poll, more than 75 percent of Americans believe that there is some truth to all religions. A more tolerant religious belief is not the same as the belief that drove the Puritans.

In addition, the religion revival is multidirectional. New sects are cropping up; new composites are created by putting together pieces from several religions—such as JuBu, a kind of Judaicized Buddhism. Throughout Latin America, Christianity is frequently being combined with traditions like voodoo. This is not, nor will it ever be, your great-great-grandparents' religion.

Believing in the pendulum has cost mainline religions a great deal in adherents and in dollars. By not recognizing the spiral, many have seen their erstwhile disciples split off to more conservative or more liberal sects, to alternative forms of spirituality, or to lay teachings that incorporate spiritual formats—witness the success of Deepak Chopra. The publishing business, the seminar business, specialty retailers (such as mineral and gem sellers), and even spas and gyms that offer yoga have all benefited from the spiraling of the trend back to religion and spirituality. None would have if they could see only a pendulum. Traditional houses of worship, and their efforts at money-raising, have suffered dramatically where only the pendulum swing was perceived.

Similarly, the renewed focus on family in recent years is seen by some as leading to a pendulum swing back to Ozzie and Harriet. It's not. With most married couples being two-earner households, with great advances in education levels and economic autonomy for

women, with the redefinition of what we mean by family—people living together without being married, gay couples, so-called “intentional” families, a la *Friends* and *Seinfeld*—the very idea of family has changed. As it always has, by the way.

Conservatives have decried what they see as the deterioration of the traditional family. Also known as the nuclear family, it was always depicted as a father who goes to work and a mother who stays home to take care of the house and the average of 2.3 children. That so-called traditional family was in reality an artifact of the 20th century industrial world. In itself, it was a spiraling of family, not a baseline. Prior to that was the agricultural era family model—a multigenerational extended family in which all worked. The fact is, the family, like all societal institutions, changes in adaptation to changed circumstances. We may have once again swung around to valuing the family. But we do not travel along a pendulum.

Increasing numbers of successful women have no children. With housing prices so high and jobs hard to find, census data shows that four million Americans aged 25 to 34 live with their parents. In his book *Adoption Nation*, Adam Pertman writes that there are now five to six million adoptions in the U.S. alone, with increasing numbers among single and gay households. Many more children are born out of wedlock. Throughout Europe, the numbers are staggering as social stigmas fall away. As mentioned in Chapter 1, “Looking Through Alien Eyes,” “illegitimate” babies account for almost two-thirds of the births in Iceland, half in Norway, and about a third in England, France, Ireland, and the U.S. Is this a pendulum swing back to the family that parenting magazines were originally designed for? Or what banks see when they issue accounts or credit? Or what advertisers depict when they want to exploit the return to family values? Or that political campaigners address when they run for office? Are housing developers, home maintenance companies, airlines, and institutions of higher learning paying sufficient attention to the new family in terms of design, pricing, accommodation, or innovation in product and service delivery?

Businesses that see themselves as family-based, such as life insurance, must adopt the alien eyes approach, or they risk becoming irrelevant. If they see their mission as serving and supporting families, they must see family as what it is today and what it may well be in the future. For in the world we are moving into, an increasingly democratized one, we decide for ourselves what our family is. Billions of dollars are at stake in the spiral from “old” family to “new” family, even as the shift is back toward family values.

It is increasingly clear that in the foreseeable future, there will no longer be *a* model of the family; there will be multiple models. If existing businesses do not accept that, consumers will find other businesses that will. The institution of family has spiraled upward and onward, while some businesses refuse to let go of the pendulum.

Example #2: Cycles in Business Oversight

Early in 1999, in response to public complaints by then-U.S. Securities and Exchange Commission chairman Arthur Levitt about the inadequacy of some audits of large businesses, the Public Oversight Board (at that time the self-regulating body for auditors in the U.S.) created a Panel on Audit Effectiveness. This panel, made up of eminent people from business, government, academia, and accounting, undertook, supposedly, an objective investigation of Levitt’s charges and developed a comprehensive response to them.

Their undoing was in seeing this “return to governance” environment as a swing back on a pendulum that had swung too far in the direction of license and conflict of interest. In its final report, delivered in May 2000, the Panel said that *“While many specific recommendations are made for improvements in the conduct of audits and the governance of our profession, our report demonstrates that both the profession and the quality of its audits are fundamentally sound.”* In other words, while there might on rare occasions be inadequate or flawed audits, this was a minor problem that could be remedied by *going back* to the basics of auditing.

As we all know, in 2002, along came the Enron, WorldCom, Tyco, A&P, Merck, and Xerox auditing debacles (among others).

The Panel appeared to believe that if auditors just went back to their old basic principles of auditing—really only a few minor readjustments—everything would be OK. But it couldn't be because too much had changed.

For one thing, there were formerly only a handful of dominant organization types. They tended to have set, prescribed, comparable processes and structures. Their operations generally conformed to widely-held principles. Thus, we could develop entire constructs of law, regulation, accounting, worker benefits—all the bits and pieces that added up to the social contracts between the organization and its stakeholders and the greater society at large. This was true whether considering family farms, the guilds, trade associations, merchant entrepreneurs, or megacorporations.

In the 21st century, however, it is clear that there will be no “typical” organization of any kind. Instead, whether small or medium or large, we are diversifying and multiplying and morphing into *hyborgs*—*hybrid organizations* that have inner and outer workings in common with few others, perhaps only themselves.

For example, operational structure today could include any permutation of

- Centralized versus decentralized control
- Virtual versus permanent versus contract employees
- Intangible versus tangible assets
- In-sourced versus outsourced work
- Wholly-owned subsidiaries versus majority stakes versus minority stakes versus joint ventures versus strategic alliances versus licensing versus leasing
- Local versus national versus regional versus offshore versus transnational versus global operations

Businesses less and less resemble each other or the models taught in business schools. They are more and more ad hoc and fluid, each one creating its own unique template, which can transform itself into something else as circumstances require. Auditing such organizations, especially when they engage in questionable practices, as Enron showed so clearly, demands an ability to think outside the box and a clear-eyed capacity to see the differences between today's and yesterday's business organizations.

Our comparing and controlling systems cannot go back to where they were. They will continue to be inadequate until we devise new ones that are calibrated to a unit of one. For example, just as there is talk of medicine's evolving to address each person's specific genotype (with individually timed and targeted pharmaceutical delivery and diagnostic processes), so too will management and technology and law and accounting principles be required to focus on the specifics of the hyborg rather than a generalized class of organizations.

Organizations will increasingly need to build, take apart, rebuild, and reconfigure their structures while simultaneously being able to respond quickly to feedback driven by success, not by processes. The *Lego-Bio* organization is an emerging model that combines the reconfiguration quality of Legos with the adaptability of a biological model. In such an organization, the pendulum is never an alternative. Operations are on continuing and multiple spirals.

For the accounting profession, thinking pendulum instead of spiral had disastrous consequences. Public outrage over accounting scandals forced even friendly legislators and regulators to expressions of concern and ultimately to stricter oversight. In June 2002, the SEC implemented an order requiring CEOs and CFOs of billion-dollar-plus companies to swear under oath that the numbers in their financial reports are correct. This, as the *Wall Street Journal* noted at the time, could subject the executives to both civil and criminal penalties. In July 2002, Congress enacted, and the president signed, the Sarbanes-Oxley Act, a comprehensive corporate fraud law that,

among other things, imposed an independent regulatory authority on auditors. There is no pendulum here; there is no way to ever go back to the same point at which this all began.

Example #3: The Markets

Experts appear on TV shows and offer advice based on market cycles, believing that what occurred before will occur again, using the pendulum analogy. Few people have made fortunes based on expert panelists' advice. That's not because the cycle was called wrong. It's because most of these experts couldn't see what would be different this time around. For example, in 2002, many economists and pundits who saw recession were surprised when retail spending did not track with economic projections quarter by quarter. At the same time, we were beginning to learn that consumer sentiment is no longer as closely tied to purchasing behavior, as was previously thought. According to an article in the *Wall Street Journal* on April 8, 2002, neither the University of Michigan's Index of Consumer Sentiment nor the Conference Board's surveys had been predictive of consumer spending. Over the past 20 years, there has been little evidence of a relationship between consumer confidence, which might be driven by such factors as war, terrorism, and disasters, and consumer spending, which may be driven by cash flow.

It is entirely possible, some experts now assert, that depression as a result of economic downturn actually spurred spending on the part of some portion of the public, especially women. Consumer spending during the 2001–2002 slowdown years may have actually led to the validity of “When the going gets tough, the tough go shopping.”

In neglecting to see the spiral, many retailers did not innovate or competitively attract customers with anything but price cuts. This could be, and often has been, a disastrous strategy. They saw the pendulum that the experts portrayed, but the consumer had moved on to

wholly new adaptive behaviors in the face of economic hardship, a highly competitive marketplace, new information channels, and new spending categories. For example, the home improvement and home furnishings businesses profited greatly. So did Starbucks. So did video game manufacturers. The consumer's cycle spiraled, the experts clung to the pendulum, and the businesses that could distinguish between the two and strategize based on the spiral, are now in much better shape.

As you try to understand the unfolding future, it is important that you free your mind of the trap of the pendulum. When there seems to be a "return" to some former time or condition, make an effort to figure out what has changed in the intervening months and years—the social, political, technological, environmental, demographic, and economic events and circumstances that are true now but weren't true then. After that, let your mind's eye take in the new landscape. Then and only then will you begin to get the cycle right. Businesses can do this in teams. Individuals can do this alone or with people whose insights they respect. You can decide who can help you best do this. If any strategy is based on the process of a cycle, or a seeming return to an earlier condition, the trap of the pendulum can be seductive. The freedom to think in terms of spiral, however, can be far more visionary and far more profitable.