Fortifying or Forgetting Forecasting:
Can We Ever Plan Accurately?

The 90th Yale CEO Summit, led by Yale Professor Jeffrey Sonnenfeld, was held at the New York Yacht Club and the New York Public Library on June 8 and 9, 2017.

This Summit brought together CEOs and business executives; current and former government officials, including the former Secretary of Defense and presidential advisors; and mayors of more than one dozen U.S. cities. Also attending were leading academics, authors, and thought leaders.

Participants examined the theme “Fortifying or Forgetting Forecasting.” Sessions dealt with the impact of new technologies on the workforce and on decision-making; predicting global stability, financial stability, political stability, and consumer preferences; and the future of health care delivery. The Legend in Leadership Award was presented to Ronald Shaich, the founder and CEO of Panera Bread.

This Summit emphasized the never-ending desire of business leaders to have accurate predictions and forecasts about the future. Cognitive technologies like artificial intelligence will access massive amounts of information to yield new insights and improve decision-making.

Technologies may eliminate many jobs, force people to work differently, and require new types of education and learning.

Yet even with the most advanced, sophisticated technologies it is not possible to predict the future. There is tremendous uncertainty, making it impossible to predict global stability, forecast financial markets, or know what will happen politically. The best that business leaders can do is anticipate and prepare for a wide range of possible scenarios, try to understand changing trends and customer preferences, and be able to respond incredibly fast.

Participants included:

- Ashton B. Carter, 25th U.S. Secretary of Defense
- Catherine M. Engelbert, Chief Executive Officer, Deloitte US
- David Faber, Co-Anchor, Squawk on the Street, CNBC
- Kenneth C. Frazier, Chairman & CEO, Merck & Co.
- Diane Hessan, Board Director, Panera Bread; Founder & Chairman, C Space
- Robert D. Hormats, Under Secretary (2009-2013), U.S. Department of State
- Anthony W. Marx, President & CEO, The New York Public Library
- Marshall Meyer, Professor Emeritus, Wharton; Sr. Advisor, The Haier Group
- Nels Olson, Vice Chairman, Korn Ferry
- Bill Peduto, Mayor, Pittsburgh, PA
- Mark J. Penn, President & Managing Partner, The Stagwell Group
- Catherine E. Pugh, Mayor, Baltimore, MD
- Kasim Reed, Mayor, Atlanta, GA
- Ginni Rometty, Chairman, President & CEO, IBM
- Kevin Rudd, 26th Prime Minister of Australia
- Ronan Ryan, President, IEX
- Stephen A. Schwarzman, Chairman & CEO, Blackstone
- Ronald M. Shaich, Founder, Chairman & CEO, Panera Bread
- Robert J. Shiller, Professor of Economics, Yale University; Nobel Prize Laureate
- Timothy J. Sloan, President & CEO, Wells Fargo & Company
- David J. Stern, Commissioner Emeritus, National Basketball Association
- Nigel Travis, Chairman & CEO, Dunkin’ Brands Group
- Mike Ullman, Executive Chairman, JCPenney Company
- Bob Woodward, Associate Editor, The Washington Post
- Ginni Rometty, Chairman, President & CEO, IBM

Some fear that cognitive technologies and automation will replace human labor and eliminate tens of millions of jobs. One participant estimated that 60 to 80 million jobs in the United States will disappear over the next 20 years.

Others see the workplace and workforce evolving to a world where humans work in conjunction with machines.

“Jobs that exist today will have to be done differently... It will be a world of man plus machine. This is the future.”

Cognitive technologies will augment humans and change how people work.

We have entered the era of cognitive technologies, which include predictive analytics, artificial intelligence, machine learning, virtual reality, augmented reality, and more. Applications mentioned include predictive maintenance, precision medicine, restaurant automation, semi-autonomous weapons, and improved decision-making.

These technologies attempt to use and derive value from the massive amounts of data that enterprises have available. This includes internal data about customers and transactions, as well as external data about the business climate, trends, and consumer behavior gleaned from social media.

“Data is the next valuable natural resource.”
In addition to having to develop new workforce skills and behaviors, other challenges for organizations and the workforce include:

• **Understanding the limits of technology and the role of humans.** Technology can sift through huge amounts of data to identify patterns and provide insights, but many decisions still—and will always—require a human to understand the context, ethics, and implications.

> “We need humans in the loop for responsibility and accountability [for some decisions]; we can’t just allow machines to decide.”

• **Changing the culture to understand when and how to use technology.** Technology such as IBM’s Watson may be valuable in helping diagnose diseases and recommend treatments, but the technology only has value if physicians change their behavior and use it. Similarly, business leaders may have tools to help make better decisions, but these tools only provide value when they are used. This is not a technology issue; it is a cultural issue.

• **Recognizing that the future demands continuous education and adaptability.** Those without adequate education will get left behind, and individuals will require ongoing education to stay current. There is increasing focus on—and numerous success stories of-intensive educational programs that help create the skills needed in the workforce. This includes high school programs with a specific curriculum, certificate and associate degree programs, apprenticeships, and even courses at Yale SOM in AI and analytics that are in high demand.

**Global uncertainty could affect investments and business models.**

The majority of CELI participants (78%) believe China wants to avoid a trade war with the United States but are unclear whether Trump wants a trade war with China. A trade war would be distracting for China, which is focused on its domestic agenda.

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<th>China wants to avoid a trade war with the U.S.</th>
<th>Trump wants to avoid a trade war with China</th>
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<tr>
<td>Strongly Agree/Agree</td>
<td>78%</td>
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<tr>
<td>Neutral</td>
<td>8%</td>
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<tr>
<td>Disagree/Strongly Disagree</td>
<td>14%</td>
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*Source: Real-time poll of CELI attendees*

In interactions with China, President Trump and his administration have prioritized security, particularly North Korea, ahead of pushing China on trade. While 93% of CELI participants believe that China could do more to resolve North Korea’s escalating hostility, and while President Trump seems to believe that China will take action to pressure North Korea, multiple former government officials don’t expect China to do anything significant in addressing North Korea.

However, once Trump realizes that China is unlikely to act, it is not clear what he or the United States will do. The possibilities are worrisome. An expert on the region said China does not currently believe the United States will launch a unilateral strike on North Korea, but that calculus could change if North Korea develops the ability to bomb the United States.

> “Temper expectations . . . don’t expect China to do much with North Korea . . . I could see China in three years saying, ‘We tried, it didn’t work.’”

Adding to global uncertainty is Trump’s decision to pull the United States out of the Paris Climate Accord. Among CELI participants, 85% strongly agreed or agreed that this decision diminished America’s global standing and only 12% disagreed or strongly disagreed.

Comments from participants included statements such as, “This hurts America’s reputation and soft power.” “This is stupid; we shot ourselves in the foot.” And even a strong Trump supporter acknowledged, “The outcome of Paris is most unfortunate. The U.S. didn’t need to drop out. Staying in would have been a better approach.”

> “This is a huge retreat in American leadership.”

For decades, America led the way toward greater globalization in trade and finance. Progress in areas like trade agreements and harmonization of regulations removed friction and resulted in global supply chains and easier sharing of information. But the recent confluence of events—including geopolitical tensions in Asia, America’s withdrawal from Paris, and rising economic nationalism across the globe—threatens to reverse globalization. It is possible there will be greater fragmentation and localization of trade and regulations, hurting efficiency and forcing companies to change their business models.
The economy seems stable and is growing slowly, but economic uncertainty is high.

The optimists see positives in the U.S. and the global economy. The economy continues to grow; consumer and business confidence is rising; many small business owners are optimistic; home prices are increasing; the stock market has set records; and deregulation should help spur economic growth. And, major investments are being made in industries of the future, including clean energy, autonomous vehicles, robotics, and medicine.

But others are less optimistic. While the economy is growing, the growth rate is barely 2%; the U.S. has been stuck in a low-growth mode for years; and wages haven't grown. Only 17% of participants believe health care reform will become law before November and only 43% expect corporate tax reform legislation to pass. One participant observed that even if there are tax reforms, this will spark asset markets but won’t do much for the economy.

A leading journalist said most executives don’t believe Trump has had any effect on business. Stocks have increased because the market is anticipating tax reform and other legislation; if this package doesn’t come to fruition the stock market will adjust. A noted economist said people are not confident in stock market valuations. He sees very uncertain times and believes the current situation could be analogous to 1997, where despite uncertainty the stock market performed well, or it could be like 1929 when the market crashed.

“It is a very uncertain time.”

A renowned investor, who is current sitting on a great deal of cash, advised, “Be careful investing. You can’t predict, but you can prepare.” In addition, while those in attendance are educated, sophisticated business leaders, almost 40% believe the stock markets are rigged; seeing the markets as rigged is not merely a perception held by the uneducated or those who don’t invest in the markets.

Confidence in the President is low, and general disgust with the federal government is high.

Panelists discussing the political landscape agreed that nothing has yet been proven regarding collaboration between Trump or his campaign and Russia, though if something were proven, it could constitute treason. Watergate took months to play out and it turned when there was a credible informant and recordings. In the absence of such hard evidence, several panelists doubt that anything illegal will be found. And a lesson from attempting to prosecute Oliver North for the Iran-Contra affair: avoid granting immunity.

Journalists on the panel see an irresponsible rush to judgment by the media, which has gone too far, too fast, as opposed to taking the necessary time to engage in thorough fact finding.

Still, more than 85% of CELI participants are concerned about Trump’s minimizing the Russian security mischief. Yet even if nothing is proven, the surrounding investigation has the potential to be a major distraction to the Trump administration and the country for a year or more.

Beyond the Russia issue, CELI participants are disappointed with President Trump’s performance, with 50% giving him an “F” over his first 130 days and only 1% giving him an “A.”

What grade should Trump receive for his first 130 days in office?

Quotes from panelists about Trump’s performance included:

- “Trump has lost control of the government.”
- “Innocent or guilty, Trump has lost control of his own management team.”
- “There is lots to be worried about.”
- “Trump was not prepared [to lead] and is not able to execute.”
- “Corporate leaders supported Trump but are concerned with bad management and lots are disappointed about the Paris withdrawal.”

Despite Trump’s poor ratings among CELI participants, a researcher who regularly talks with hundreds of voters from across the political spectrum sees Trump maintaining support among his base. She divided the electorate into three groups:

- Trump’s core (30-35%). These individuals believe that Trump is doing all that he can and is playing whack-a-mole.
- The obstructionists (20-25%). These individuals are opposed to everything Trump says or does, and are actively resisting and obstructing.
- The miserable middle (40-45%). This group is frustrated and annoyed by Trump, but is also annoyed by the obstructionists; they want politicians and the country to come together. Currently, this group has nowhere to turn politically, and more people are calling themselves independents. They are up for grabs.
Empathy can be a force for good but needs to lead to scalable, systemic changes.

After discussing global affairs, the economy, and the political climate, participants engaged in a discussion of empathy and compassion. Professor and author Paul Bloom argued that empathy—feeling what others feel—can be a powerful force for good by motivating positive action. However, empathy is biased, myopic, and can be used to motivate violence.

Empathy that is focused on assisting one individual doesn’t make the world better. In contrast, reasoned compassion that motivates scalable, systemic solutions can make a meaningful difference. Examples were shared of cities trying to create cultures of kindness and compassion, of large-scale undertakings to teach coding and robotics in schools, of training and employing people who were homeless, and of improving the sanitation of schools in India. None of these are small one-off acts; all are scalable solutions that touch hundreds or thousands of people.

With so many competing forces, changing health care delivery is enormously challenging.

Health care already represents 18% of the U.S. economy, and due to demographic factors (especially an aging population with more chronic diseases), this will only grow.

Predicting the future of health care delivery is difficult based on conflicting priorities, which include access to care, efficiency, affordability, and innovation. One trend that is likely to continue is a shift to value-based payment, where payment is based on outcomes. This will incent innovation that works and will drive greater efficiency in order to provide greater value.

Amid the outcry over high drug costs, a leading pharmaceutical executive countered that developing drugs takes billions of dollars in investment, takes years to develop, and has a low success rate, and most drugs don’t make back their cost of capital. Therefore, those that do succeed must cover the costs of R&D efforts that don’t pan out. In addition, of the almost $500 billion spent on pharmaceuticals each year, just over $200 billion goes to research-based innovators, with other players—such as PBMs and the makers of generics—making the rest of the money in the industry. Innovators need appropriate incentives in order to invest billions in high-risk experiments.

Prospearing in consumer businesses requires understanding trends and changes in consumer preferences, and being able to respond.

Participants, including Legend in Leadership recipient Ron Shaich, commented on the retail, restaurant, and sports and entertainment industries. These industries target consumers who have short attention spans and have multiple options vying for their attention. In these saturated, competitive markets—where everyone must compete with Amazon—keys to future success will include:

• Providing unique, compelling consumer experiences.
• Building enduring trusted brands.
• Understanding and tapping into trends around health and the environment.
• Being part of the digital and social media landscape.

Legend in Leadership Award

Kenneth C. Frazier, Chairman & CEO, Merck & Co., and Mike Ullman, Executive Chairman, JCPenney Company, presenting Ronald M. Shaich, Founder, Chairman & CEO, Panera Bread, with the Legend in Leadership award