Winning the '20s in an Accelerated Post-COVID World

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Companies often look to the decade ahead to ground their strategies in long-term shifts. After the COVID-19 crisis forced leaders to shift their attention to navigating critical short-term issues, many are now refocusing on the longer-term agenda for their businesses. In contrast to the global financial crisis, which seemingly slowed the long-term change agenda, COVID-19 has done exactly the opposite: long-term imperatives have been accelerated by the pandemic.

Two years ago, we laid out an agenda for business leaders to win the '20s, which examined the ongoing forces reshaping business and identified five broad imperatives for companies across regions and industries. COVID-19 and the surrounding events have sharpened and heightened this agenda, making it even more critical for success in the remainder of this decade. In this article, we revisit these imperatives and discuss how they have been underlined and accelerated by the crisis.

MASTER THE NEW LOGIC OF COMPETITION

In the classical model of strategy, businesses compete within well-defined industries, provide a stable set of offerings, and pursue static forms of advantage such as scale and differentiation. However, the business context has become more complex and dynamic in recent decades. Economic, political, and competitive uncertainty has increased; industry boundaries are blurring; and technology is commoditizing or making existing offerings and business models obsolete more quickly.

To reinvent their strategies for the new context, we argued that companies must master new dimensions of competition. Companies need to compete on the rate of organizational learning—rapidly discovering changes in the context, assessing the implications, and adapting offerings and business models accordingly. They also need to build resilience to unexpected shocks, and harness imagination to create new offerings or business models that could drive future growth.

The rapid changes experienced throughout the COVID-19 crisis underlined the need for learning and adaptation. Consumer demand shifted unpredictably as a result of health concerns, activity restrictions, and economic challenges, and companies that were better positioned to navigate this dynamic environment gained advantage. For example, demand for hand and power tools dropped dramatically in the early stages of the pandemic as consumers cut discretionary spending and distancing measures impeded sales; but within several weeks it rebounded beyond prior levels, driven by increased home improvement activity. By mobilizing swiftly and

investing when the rebound was still nascent, Stanley Black & Decker expanded market share.

The crisis caused a significant dispersion in corporate performance—for example, in China (where the shock and recovery came earliest), the spread in total shareholder return between leading and lagging companies nearly doubled compared with the prior year. But the resilience imperative will not go away as the crisis abates; resilience has a disproportionate impact on long-term success, and the need to thrive amid potential shocks is greater than ever. Similarly, many businesses reimagined themselves to deal with new needs brought about by the pandemic—even in traditionally slow-moving sectors like health care and education —and more will be needed to address the multifaceted challenges that the rest of the decade will pose.

Looking forward, leaders will need to redouble their efforts on three fronts to reinvent their strategies for a more dynamic context:

- **Renewing advantage frequently**. As companies grow and complexity builds, business and organizational models tend to become entrenched. However, technology has caused existing models to decay more rapidly today—and if you wait for performance indicators to decline, it might be too late to recover. Companies need to perform well in their existing businesses, of course, but they must also continually explore for new growth models to achieve persistent success.

- **Balancing efficiency with resilience**. COVID-19 won't be the last major shock to hit businesses—and leaders may increasingly be judged on how prepared they are for the next one. Effective preparation will require a mindset shift throughout the organization: from maximizing efficiency to balancing it with resilience; from prioritizing short-term optimization to focusing on long-term value creation; and from considering the business in isolation to shaping for the larger systems in which it is embedded.

- **Shaping the context.** Learning about and adapting to external changes is important, but it is not the only way to gain advantage in an uncertain context. Businesses can also shape potential outcomes through their own actions—such as by creating new offerings that bring new consumer needs to the forefront, or by working together with partners to influence the progression of an ecosystem for mutual benefit.

DESIGN THE COMPANY OF THE FUTURE

The changing business context is revealing the limitations of traditional organizational models, which were generally designed for executing fixed tasks efficiently, not for optimizing learning and adaptation. At the same time, the rise of artificial intelligence offers tremendous potential to transform businesses, but achieving that potential—and unlocking human capabilities accordingly—will require new ways of working and organizing.

We argued that leaders need to reconceive the company as a hybrid learning organization. This involves reinventing organizational structures and processes to combine technological and human capabilities: integrating algorithms and decision engines to learn at the speed of data, refocusing humans on higher-level problems that algorithms cannot yet solve, and creating new interfaces for humans to effectively collaborate with machines. It also involves tapping into capabilities beyond the organization, such as by using digital platforms to coordinate activity.

The pandemic has only accelerated the need to reinvent ways of working. Most companies rapidly changed their operating models in the past year, expanding remote work and digital collaboration amid social distancing guidelines. This shift has been positive in some ways, revealing that many aspects of work that had been taken for granted (such as daily commuting and traditional meetings) can be improved. However, some downsides have also become evident: for example, data on collaboration patterns from millions of workers shows that communication networks are shrinking—the average information worker collaborates with 43% fewer people on a weekly basis than they did before the pandemic. As restrictions

fade, leaders will have a critical role to play in developing new working models that address the downsides of remote collaboration without fully reverting to pre-COVID norms.

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By forcing more companies to digitize rapidly, the crisis also strengthened the imperative to combine humans and machines optimally. It laid bare the potential power of AI—algorithmic decision engines helped coordinate activity on online marketplaces at unprecedented scale, leading to a massive increase in e-commerce in many countries—but it also showed the need for capabilities that AI doesn't have, such as interpreting prescient anomalies, understanding the dynamics of sui generis events, and reimagining business models. Creating synergies between people and AI systems will become an even more important leadership challenge as digitization continues across industries.

Finally, as collaboration and sales channels migrated online, many businesses built or enhanced external partnerships—which are likely to persist beyond the crisis. This has increased the potential value of harnessing digital ecosystems: the seven largest ecosystem players alone accounted for more than one-third of the market capitalization gains in the S&P Global 1200 in 2020.

Looking forward, leaders will need to create organizations that can learn and adapt on all timescales, by doing the following:

- **Digitizing for dynamic advantage**. Many businesses have launched or accelerated digital transformation initiatives, but merely digitizing existing

processes will not generate lasting advantage. Leaders must understand the bigger picture of how technology can create dynamic advantage—such as improving organizational learning, adaptation, and collaboration—and design their technology agendas accordingly.

- **Elevating human cognition**. Though there is concern about the speed at which AI will take over routine tasks, humans can do plenty that machines cannot yet do. Forward-looking leaders will train and apply their people to such tasks—such as decoding and reasoning about the implications of slow-moving contextual shifts, applying counterfactual thinking to create new ideas, and designing the organizational model, governance, and purpose of the company itself.

- **Experimenting and evolving the organization.** No full playbook yet exists for solving new challenges such as remote work and human-AI collaboration, and the requirements and possibilities will continue to evolve with technological and contextual change. Leaders must design an evolvable organization—one that embraces experimentation and is built with the flexibility to adapt to new circumstances.

APPLY THE SCIENCE OF ORGANIZATIONAL CHANGE

Because companies need to reinvent themselves more frequently amid a more dynamic environment, organizational change will be a critical capacity. Change management has traditionally been guided by a monolithic approach and plausible rules of thumb, but such efforts often fail. Our research shows that only about one in four such programs succeeds in both the short and long run.

We argued that leaders need to adopt a new approach to organizational change. Though change initiatives often aim at applying new technologies or analytics tools within the organization, such tools are rarely applied to the design of the change program itself. Leaders should leverage empirical evidence and new technology to make their transformation initiatives more likely to succeed. They should also de-

average their approach to change and transformation, recognizing that different types of challenges require different approaches and interventions.

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Not only was the pandemic a major catalyst for transformation, it also produced or revealed capabilities that can enhance change programs going forward. The shift to remote digital collaboration has tremendously accelerated the ability to quantify employee behavior at an aggregate level. This data can be used to improve detection of the early warning signals that change is needed, as well as to improve how change programs are designed and implemented.

The past year has also revealed that organizational inertia is not necessarily the limiting factor we imagined it to be. Though large organizations often move slowly, the early stages of the pandemic forced many incumbents to implement major changes in a matter of weeks. Industrial leaders started producing new health products, consumer goods sellers adopted new distribution channels, and essential services companies made massive changes to safety protocols. This demonstrated that change need not happen through slow, deliberate planning processes—with sufficient urgency, it can be significantly accelerated.

Looking forward, leaders should enhance their change toolkit, in ways such as the following:

- **Applying analytics to change programs**. Change programs have traditionally been governed by intuition and qualitative reporting, but they often fail. Leaders should take an evidence-based approach to change, such as

by analyzing past efforts in similar situations to understand what led to success or failure, and by leveraging new granular data sources on employee behavior or external sentiment.

- **Tailoring approaches to change situations.** The pandemic put many companies in situations where traditional change management approaches were not sufficient because of the urgency or novelty of the required solution. As the context remains uncertain and volatile, leaders need to look beyond a one-size-fits-all toolkit and tailor their approach to the circumstances.

- **Creating urgency for preemptive change.** As the immediate crisis gives way to recovery, we need to guard against complacency and inertia. To improve their ongoing capacity for change, organizations need to maintain their ability to adapt rapidly, even when it is not forced by circumstances.

EMBRACE THE BUSINESS IMPERATIVE OF DIVERSITY

Diversity is not only a moral imperative; it is a business necessity. Organizations with a wider variety of backgrounds and perspectives are more innovative, and this advantage increases as they embody more distinct dimensions of diversity. Additionally, diversity strengthens resilience; when a company can deploy different perspectives and ideas, it is better able to hedge against unexpected outcomes.

Yet the evidence shows that progress has been lackluster. For example, the share of female managers at large global companies has increased by only one percentage point over a decade. We argued that companies need to unlock the potential of diversity by building an inclusive workplace and increasing progress on building diverse teams.

In the past year, the urgency of accelerating diversity along multiple axes has grown substantially. The disparate economic and health impacts of the pandemic, as well as major social and political events, have heightened the need to address inequities between groups. Accordingly, businesses and other organizations are increasingly judged on what they are doing to increase diversity and inclusion.

At the same time, the greater need for innovation and resilience has increased the business value of diversity. For example, the required strategic approach has changed through the crisis—companies that were primarily optimizing operations in stable environments before the pandemic needed to adapt to short-term uncertainties when it began, and then to envision the post-crisis future as the pandemic receded. Cognitively diverse organizations were more likely to have the different strategy skills required in each stage and be able to pivot from one frame to another.

Looking forward, leaders need to accelerate progress on building diverse organizations, in ways such as the following:

- **Creating accountability for progress**. Leaders need to be accountable for progress against diversity goals, as with other business imperatives. This may include setting and articulating clear and ambitious targets, identifying new actions that will be required to achieve them, and reporting on progress regularly.

- **Fostering and applying a variety of thinking styles.** In addition to compositional diversity, organizations should harness the benefits of cognitive diversity. This involves not only selecting for a wider range of skill sets but also matching them to the respective contexts where they are most needed.

- **Acting beyond the boundaries of the organization**. To maximize the impact and benefits of diversity, leaders should measure and manage not just the diversity of their own company but also that of partners and suppliers.

OPTIMIZE FOR BOTH SOCIAL AND BUSINESS VALUE

Long-run trends have brought corporate capitalism to a tipping point: social and environmental externalities are increasingly visible; automation is raising questions about the future of work and employment; and inequality and polarization have risen within many countries. As a result, companies and investors are increasingly expected to go beyond financial returns and consider their broader societal impact.

If businesses don't play a role in addressing larger social challenges, they could undermine the systems in which they operate.

We argued that businesses need to create both societal value and economic value to thrive in the long run. This involves embedding social impact into corporate strategy, rather than treating it as an add-on, and reinventing business models and metrics accordingly. It also involves articulating a positive purpose at the intersection of each company's aspirations, capabilities, and impacts, and practicing corporate statesmanship to proactively shape collective action on critical societal issues.

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As the focus shifts back from COVID-19 to longer-term issues, climate change will return to the top of social and business agendas with even more urgency than before. The pandemic has foregrounded the importance of taking proactive action against social and environmental risks, as well as the breadth of the potential impact if action is not taken. Diminished economic activity temporarily reversed emissions growth in 2020, but if unchecked, it will surely bounce back as many economies recover.

Additionally, public scrutiny of technology intensified as digital platforms became not just a luxury but a necessity for working and consumption. One recent study found that trust in technology has fallen to all-time lows in many countries.[1] Reversing the march of technology is implausible, but in order to maintain trust and the ability to innovate, digitally enabled companies must ensure that technology is, and is seen as, a force for good.

Such societal challenges present risks for companies that do not figure out how to address them effectively—but also opportunities for those that do. The pandemic has already shown that businesses have great capacity to mobilize against major issues. Companies made invaluable contributions through innovations in health and safety protocols, communications and tracking technology, and vaccines and therapeutics. Businesses that create societal value in addressing climate change and other issues will be advantaged in the long run, through the durability of their business models and as a result of their ability to attract consumers, employees, and investors.

Most business leaders now express intentions to play a role in addressing societal challenges, but too often it does not move beyond pronouncements and reporting to sufficient action. Leaders will need to take actions to merge sustainability and sustainable competitive advantage, such as the following:

- **Expanding the business context.** Assessing the sustainability of your company alone is not sufficient—relevant risks or sustainability concerns may lie beyond organizational boundaries. To expand their perspective, leaders need to lay out their entire supply chain, product lifecycle, and business ecosystem, identify potential issues, and look at how they are evolving over time.

- **Testing and reinventing business models.** Stress-testing the current model can bring future risks to light: What breaks if the business doubles, or if external trends continue indefinitely? Companies should address these potential bottlenecks by applying business model transformations—such as owning the origins to ensure sustainable inputs or expanding access and inclusion.

- **Scaling solutions beyond your organization.** Acting alone, any one business can make only a limited impact on societal issues. To go further, leaders need to foster collective change by forming coalitions to encourage action, set standards, or promote effective policies.

Many leaders shifted their focus to short-term issues as COVID-19 hit, but the long-term change vectors did not pause in concert—in fact, the crisis accelerated them. Leaders now need to refocus on the long term and address these five imperatives to give their companies the best chance to win the rest of the '20s.

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