

LEADING OUT OF ADVERSITY

Rich Lesser and Martin Reeves

A YEAR BEFORE THE COVID-19 outbreak, we argued in [Winning the '20s](#) that the basis of competitive advantage was shifting. The combination of technology-fueled change, the rise of new learning technologies, and declining long-term growth rates, which require accelerated innovation, called for companies to compete on their rate of learning.

We proposed that this would require [new hybrid learning organizations](#) combining both AI and human ingenuity, a [more effective approach to change](#), [leveraging human diversity](#) for resilience and innovation, and [the creation of trusted, purposeful organizations](#).

These imperatives have not been overturned by the pandemic. Indeed, they will be reinforced by it. COVID-19 has made every organization aware of the limits of its ability to learn quickly in an extremely fast-moving environment, in which ten days of hesitation can lead to the quadrupling of infections and to an escalation of business and societal disruption. Resilience

is no longer a theoretical concern: companies and countries have been made painfully aware of the fragility of the critical systems upon which they depend. And crisis has created a need for companies and governments to demonstrate that their purpose and values are not just hollow words written in better times.

So how has COVID-19 changed the priorities for leadership? In addition to underlining the long-term imperatives we laid out for succeeding in the coming decade, the pandemic has layered on an enormous transitional challenge—the need to move from a situation where the real economy has been placed in a coma by social distancing measures, to building a path to growth and prosperity. As a result, companies in many sectors will have to survive a brutal short term in order to access long-term options. But while survival may be top of mind today, thriving is the long game. And this requires leaders to respond to a new environment, a new customer, and heightened societal expectations in order to lead the way out of adversity.

COVID-19 will also make the non-market aspects of strategy more prominent. Systems resilience can be created only through cooperation between companies and between companies and governments. And having somewhat fortuitously lowered our carbon footprint during the pandemic, in spite of the conspicuous failure of previous efforts to do so, expectations to use this to jump-start progress will likely be high.

In other words, long-term imperatives have been supplemented by the short- and medium-term imperatives of conquering the disease, restarting the economy, and adapting to and shaping the post-COVID world, which will likely be quite different from the pre-crisis reality. There will be no “return to normal.”

Five Imperatives for Leading Out of Adversity

To address these enormous short- and medium-term priorities, we see five leadership imperatives.

SUSTAINABLY FLATTEN THE CURVE

The first priority is to sustainably flatten the curve of the disease. Currently, the only tools that can slow the epidemic are quarantine and aggressive social distancing. Unfortunately, these measures impede the movements of goods and people and are tantamount to freezing the real economy for an extended period—a move for which there are few historical precedents. There is no acceptable tradeoff between deaths and dollars, so we must seek to *break* the compromise by not only flattening the curve but by doing so sustainably for both lives and livelihoods.

Our best hope lies with medicines to treat the disease and vaccines to prevent it, but the former are not yet proven and the latter are probably at least 18 months away from discovery and widespread use. We must do everything we can to pursue both paths by aggressively investing in innovation, clinical trials, and manufacturing capacity.

In the interim, we need new approaches, drawing on learnings from places like

South Korea. These will require large-scale testing both for infection and immunity, new models for risk stratification, new practices for rapid tracing, tracking, and enforcement, and new guidelines for when, where, and how to open communities and the economy—and for when and how to react if infections recur. They will also require extraordinary collaboration and aligned communications among governments, health systems, and businesses as well as regulatory and policy innovation. We must introduce and implement these new approaches rapidly and learn and adapt as situations on the ground change.

Needless to say, this massive challenge will truly test governments, society, and business. But considering the alternatives of a comatose economy or rapidly recurring infections and overwhelmed health systems, we have little choice but to do all we can to make it work.

WIN (BACK) THE NEW CUSTOMER

As the disease is brought under control, businesses will need to start the journey to win the new customer in the post-crisis world. Wars, contagions, and other social crises often shift attitudes, behaviors, and patterns of demand. World War II not only forced the invention or accelerated the commercialization of jet engines, radar, penicillin, helicopters, pressurized aircraft cabins, guided rockets, artificial rubber, and a host of other products, but also ushered in or accelerated commercial aviation, a suburban housing boom, the participation of women in the workforce, and other profound social changes. Companies need to discern, adapt to, and shape the emerging new reality.

The trickiest aspect of this will be distinguishing between crisis-induced short-term changes and more permanent shifts. Companies will need to detect emerging trends using high-frequency data analysis and test their durability by looking at coherence with long-term trends, analyzing consumer frictions, examining signals from maverick players experimenting with new business models, and learning rapidly from coun-

tries that are further ahead in the cycle, like China and South Korea. To do so, companies will need to pivot from a crisis management mindset to a more creative and imaginative one.

Against this backdrop, two trends are already clear. The first is a massive acceleration of the shift toward digital platforms and channels. Traditional enterprises will need to make sure that they fully participate in this shift rather than risk accelerated disruption from digital incumbents.

The second is the enormous challenge for many parts of the economy to restore consumers' trust. Entering a restaurant, going to a store, flying, or watching live entertainment will all entail heightened levels of anxiety, which could inhibit demand well after distancing measures are lifted. Businesses will therefore need to implement confidence-building measures, both individually and collectively, just as a series of new security measures were necessary to restore confidence in air travel after 9/11.

ACCELERATE DIGITAL TRANSFORMATION

As businesses adjust to the post-COVID world, they must therefore accelerate their digital transformation. Well before the crisis, many businesses pursued digital transformation programs to both defend themselves against competitive disruption and leverage the superior functionality of digital business models with respect to agility, evolvability, scalability, productivity, and customization.

Indeed, most large enterprises now have a digital strategy that encompasses digital platforms, ecosystems, operating models, and offerings, underpinned by AI and supported by a digital transformation program. But what has been a discretionary, self-paced transformation has become instead an urgent priority. Just as SARS (which was restricted mainly to Asia) accelerated the adoption of digital commerce and the rise of Alibaba, COVID-19 is already having the same effect, but this time on a global basis. Businesses and consumers have essentially

been given a massive opportunity to try out and get accustomed to digital shopping, working, and collaboration. This and the generally superior economics of digital channels will accelerate the penetration of digital business models.

The first wave of digital transformation programs revealed that they are every bit as challenging as other large-scale change programs. They need to be holistic, focused on value creation, and not predominantly technology driven or constrained by existing processes and offerings. Above all, to compete dynamically on the rate of learning, organizations will need to be re-conceived to combine human ingenuity with machine learning. Companies must focus on the human side of digital transformation at least as much as the technological side, including by incorporating new ways of working.

CREATE ADVANTAGE THROUGH RESILIENCE

As companies and countries reconsider their operating models, resilience will become a key design criterion. Companies have spent decades building efficient, extended global supply chains that located production activities in low-cost locations and connected them with digitally enabled logistics. Their effectiveness has been measured in terms of speed, cost efficiency, and profitability.

COVID-19 has shown that systems built mainly to maximize efficiency tend to be brittle under stress. This applies not just to business systems but to our health care and disaster preparedness systems, too. Our benchmarking indicates that many companies intend to rebuild their supply chains in a more decentralized and resilient manner. And many governments, having discovered their dependence on a handful of distant manufacturers for vaccines, masks, and ventilators, will likely be considering whether shorter supply chains, emergency stocks, and greater self-sufficiency constitute better policies in critical areas.

In addition to supply chain resilience, balance sheet resilience is of heightened im-

portance. In the short term, this requires cost reduction, a focus on cash, and in some cases government support. Longer term, it could reduce the power of activists to push boards and of asset managers to pursue greater leverage and large share buybacks.

While business leaders frequently talk about resilience, very few companies design, measure, and manage their critical systems for it. The key characteristics of resilient systems are redundancy (buffers), diversity, modularity, prudence, adaptivity, and “social embeddedness.” To design such systems, companies will need to think in a different way about business, with a biological rather than a mechanical mindset. Classical business strategy focuses on the question, “How (relatively) good is my game?” In an uncertain, dynamic world, we must also ask, “How robust is my game, can it adapt, and how long will it last?”

MOBILIZE PURPOSE IN THE COMMON INTEREST

Before the crisis, CEOs were starting to engage deeply in corporate purpose, multi-stakeholder capitalism, and sustainability in response to global warming and other collective concerns. This agenda will certainly become more urgent and specific as a result of COVID-19. As citizens and small businesses endure enormous hardship while governments support major enterprises with unprecedented rescue packages, we should expect intense scrutiny of the social relevance and contributions of corporations. How individual companies act and communicate in this extraordinary

period will likely be remembered for many years to come.

Companies and governments will need to embrace a new spirit of collective mobilization and action. Our biggest problems—sustainably flattening the curve and rebuilding trust in the short term; global warming, growing inequality, and preparing for future pandemics in the longer term—are all communal problems, which cannot be solved by competing harder within the current framework for markets, corporate governance, and regulation. Currently, externalities are not properly priced in, there is limited global governance for global problems, and in many cases we don’t have robust tracking mechanisms for common goals.

A recent survey showed that governments are more trusted than companies but are seen as less competent. And companies are less trusted but seen as more competent. Both governments and companies will be expected to break this compromise. To collectively succeed, we need both competent, resilient governments and purpose-driven companies.

ALL OF THESE ideas are only potentialities, which will be realized only through our individual and collective actions. Never has the premium on leadership been higher. Business leaders need to create a collective narrative of hope and catalyze bold collective action if we are to look back at COVID-19 as an inflection point for collective progress, rather than as a squandered opportunity.

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