For CEOs, the Future Is a State of Mind

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Our destiny is not written in the stars. What happens next—our future—is determined by our decisions, our choices, our actions. Shakespeare knew this four hundred years ago. We are masters of our own fate, he writes in *Julius Caesar*; our destiny is “not in our stars but in ourselves.”

Too often, however, we forget this. We allow ourselves to get overwhelmed by a sense of hopelessness. This is perhaps understandable in the current environment—amid regional wars, the lingering effects of a pandemic, environmental disasters, slow or negative economic growth, and high (albeit declining) inflation, the prevailing mood is one of pessimism, with some observers even saying we are enduring a period of polycrisis or even permacrisis.[1]

But it’s a mistake to predict what the future will look like by extrapolating from current events. It's better to stand back, consider the bigger picture, and take a long-term view.

> **With the right leadership, companies can deliver the kind of sustainable and profitable growth that sets them apart from the competition.**

This is certainly true in business. We know that with the right leadership, companies can break free from the constraints of their time, chart their own course, and deliver the kind of sustainable and profitable growth that sets them apart from the competition. While reversion to the mean is typical, even for most high-performing companies, some are able to buck the trend—as shown by a 2020 BCG study, which found that over the previous five years, “17% of top-quintile companies maintained their advantage and experienced minimal performance decay, even as their peers rapidly regressed to average.”[2]

So, as a business leader, you should be optimistic—believe that you really *can* navigate your way through these choppy waters and start visualizing what your company will look like in five or even ten years’ time. This vision should be viewed as a point on the horizon, a North Star. Then, you should prepare a roadmap containing the practical things your company must do to turn your vision into a reality. The cycle of continuous and rapid change will require your company to be constantly future-ready, able to move fast to recover from setbacks and exploit new opportunities.

A Roadmap for Continuous and Rapid Change

So, what does it take for a company to be future-ready? In our view, you, as leader, need to focus on delivering higher productivity, greater efficiency, and ultimately more profitable growth by concentrating on seven interlocking business domains, which we divide into four categories on the basis of specific leadership approaches. You should be:

- **Decisive and unsentimental** when reviewing your corporate portfolio.
- **Experimental and ambitious** when pushing for breakthrough innovation, rethinking global supply chains, improving sustainability, and applying technology.
- **Prudent** when managing your company’s capital and liquidity requirements.
- **Patient** when building your teams and managing your talent.

And for all the categories, you should be **persistent**, because you will need to overcome many obstacles on your journey of continuous and rapid change.

Let’s now look at each of the seven business domains in turn.

The Corporate Portfolio

In one way or another, every large company is a portfolio of businesses. Some companies have grown their portfolio organically over time, while others have acquired new businesses or merged with other firms and thus ended up with an array of businesses. The performance of these different businesses can vary greatly. Indeed, for many companies, the 80–20 rule holds true: 20% of their businesses generate 80% of the value, or even more.

It is crucial, therefore, that you continuously evaluate your entire corporate portfolio and determine which businesses are creating value and which ones aren't—and which ones may even be destroying value.

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Too often, we find that businesses are kept for historical or sentimental reasons. "This is where it all started, we can't give it up," was the response of one of our clients when we laid out their huge losses over many years in consumer electronics and suggested closing down the unit. It took the leaders another three years to exit the business after they finally accepted that they could not stop the bleeding.

It can certainly be tough to undertake a clear-eyed, dispassionate analysis of the performance of your company's portfolio. After all, by acknowledging that you must give up those businesses that are no longer competitive, you are admitting that you have, in some senses, failed. But to build a successful future, it is absolutely necessary for you to do this. Your focus should always be on tomorrow—not yesterday.

Innovation

If you don't change, you won't progress, and you won't deliver profitable growth—and to deliver change, you need to innovate. That's what the top companies do. In our latest report on the world's most innovative companies, BCG found that, since 2005, the top 50 have outperformed the MSCI World Index on shareholder return by 3.3 percentage points per year. But what kind of innovation delivers this level of sustained outperformance?

Today, there is a tendency to equate innovation with AI, especially generative AI. Indeed, BCG is helping clients deploy these fast-evolving technologies to transformative effect—integrating GenAI into their daily operations and processes, reshaping core company functions end to end, and inventing new products, services, and business models.

But innovation isn't just about technology—it's a mindset. Although four of the world's most innovative (and valuable) companies are technology-led companies—Apple, Amazon, Alphabet, and Microsoft—what really distinguishes them is not their technology but rather their *approach* to innovation. Their leaders think expansively about the opportunities to create value for their customers. They understand that innovation comes in all shapes and sizes: better, faster services; lower-cost products with less waste; higher-quality materials with more durability; more personalized services; new business models; and so on. They also understand that innovative ideas can come from many different sources—not just from the wizardry of an AI algorithm or from the people working in the central R&D or strategy departments.

> **Innovation isn't just about technology—it's a mindset.**

Subsidiaries, operating on the edge of your company's core business, are a good source of new ideas because they come into contact with customers, competitors, and local communities that can spark ideas for new products and services. Engaging with customers and identifying their wants, needs, and pain points can lead to what BCG calls "deep client discoveries": new ideas that lead to new solutions. Other good sources of ideas include the vast repositories of data your company holds on your customers; the patent landscape; adjacent businesses; and your suppliers.

But nothing about the process of innovation is easy. Indeed, experimenting is necessarily disruptive and often uncomfortable. This is why we talk about the importance of persistence. Ultimately, leadership is about choices. Do you want to create a successful future-ready company? If the answer is yes (and it should be), then you should embrace the transformative, albeit disruptive, power of innovative change.

Supply Chains

There are two critical dimensions to consider when thinking about your company's supply chains: the geographical and the value-added. Let's take the geographical dimension first. In a fracturing world, it is important that you reorganize your supply chains so your company can seize what BCG calls "fractal advantage": the growing opportunities emerging at the edge of a business. While your company may retain a footprint that spans the globe, it should be much more multiregional or even multilocal—and your supply chains will need to reflect this.

Indeed, many companies are reorganizing their businesses in three overlapping regional circles: North America; Europe, North Africa, and the Middle East; and China and Southeast Asia. They are starting to develop, produce, and market their goods and services for the customers within each of these three regions while limiting their dependence on the supply of raw materials, parts, and components from other regions.

Many US companies have reduced their reliance on China as a manufacturing hub and switched to suppliers at or closer to home. Reflecting this, Mexico last year overtook China as the biggest source of goods to the US for the first time in 20 years.[3] But the story is not just one of "reshoring" and "near-shoring." Some Chinese companies are reorganizing their supply chains to build a presence in North America and Europe. For example, BYD, the world's largest electric vehicle company by sales, is "offshoring" by planning factories in Mexico, Brazil, Hungary, Uzbekistan, Thailand, and Indonesia.[4]

Given that costs, risks, and access to markets are constantly changing, it is crucial that you keep the geographical scope of your company's supply chains under constant review—and make the necessary adjustments. At the same time, you should consider what we call the value-added dimension: in other words, your company's place in the supply chain. In some senses, every company is a buyer *and* a supplier, and so you need to work out your company's role in a particular ecosystem. Specifically, you need to think about what your company's core business capabilities are—and therefore what you should focus on and what you should deemphasize.

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Companies with a global reach will probably aspire to become orchestrators—those that reduce risk and generate excess profits by wielding influence through the management of a diverse range of companies. Apple is the classic example of an orchestrator: it takes charge of the development and design of goods and services but collaborates with contract manufacturers (who assemble its products) and software providers (who create the apps and other user interfaces).

But operating as an orchestrator is not easy. To succeed, you will need to work with supplier companies that have the special capabilities that your company does not have or does not want to develop. Also, you will need an empowered procurement function—and this is where AI can be truly invaluable. Some companies are starting to experiment with generative AI and other digital tools that not only automate but also augment their capabilities—helping them gain a knowledge advantage (by scanning the market for all the publicly available information on their suppliers) and freeing up as much as half of their procurement team to work on profit-generating activities.[5]

Above all, you will need a deep understanding of the way supply chains work. It is no coincidence that Tim Cook, Apple's CEO, is a former chief procurement officer.

Sustainability

Once seen as a nice-to-have for companies, sustainability is now generally viewed as a necessity for a company to keep its license to operate and, by making the company more efficient, ensure its future commercial success. But following the rise of geopolitical tensions and the global pandemic, sustainability appears to be sliding down the CEO agenda in many parts of the world.[6] Leaders should remember that sustainability is not only about doing good but also about doing well.

Over the years, the word "sustainability" has come to incorporate many things—including human rights, labor conditions, ethical business governance, and biodiversity. But the top of your priority list should be reducing waste and leakage. There is no company in the world that can seriously claim to have eradicated all its waste and leakage. And the opportunities to drive productivity and efficiency are huge: it has been estimated that one-third of the world's food is being lost between the field and the fork; similarly, as much as 60% of potable water—already a scarce resource—is lost through leaking pipes.[7] You should look to position your company as a regenerative business by replacing the “take, make, waste” approach of the linear economy with the “reduce, reuse, recycle” approach of the circular economy.

Your next big task is reducing carbon emissions. Many companies have set ambitious goals for reaching net zero by switching to wind, solar, hydroelectricity, and other forms of sustainable energy. As you do this, you should endeavor to cut your company’s consumption of all kinds of resources. By doing so, you will not only reduce emissions and help save the planet, but you will also reduce your costs and help sustain your company far into the future.

But sustainability is not just about driving productivity and efficiency by cutting down on waste and greenhouse gas emissions—it’s also about driving profitable growth by capturing new opportunities. On its own, the circular economy is projected to be worth nearly $700 billion by 2026—up from $339 billion in 2022. Meanwhile, the green economy is forecast to be worth $10.3 trillion by 2050, as new industries are born.[8] If you haven’t already done so, you should position your company for the changes ahead by developing and launching new products and services that your current and future customers will need.

> **Sustainability isn’t just about cutting waste and greenhouse gas emissions—it’s also about driving profitable growth by capturing new opportunities.**

So, as a leader, you have a choice—not about whether to pursue sustainable policies (because there are regulations requiring you to do so) but rather about how, and how far, to pursue them. The current financial challenges may be causing you to question your company’s commitment to its sustainability goals. But if you stop to think about your company’s place in tomorrow’s world, then the choice you make should be obvious.

Technology

Technology is seen by many as a “silver bullet” solution to all our problems. As we said above, it can certainly make a big difference in the quest for innovation, the optimization of supply chains, and the achieving of sustainability goals. It is therefore crucial that you make the application of technology across the company one of your leadership imperatives. You cannot afford to delegate this task to the chief technology officer, chief information officer, or chief data officer. These technology experts can help you select the best package of systems and tools. But ultimately, your company’s future success will be determined by how well the technology is embraced by everyone in the organization. And that’s a task for you—as leader.

A study by BCG and *MIT Sloan Management Review* found that only one out of ten companies enjoy significant benefits from AI. Why is this? The problem lies in the way technology is embedded in the everyday operation of the company. To address this, BCG uses what we call the 10–20–70 rule. To embed the technology successfully, companies typically devote 10% of their effort to designing the algorithms and 20% to developing the underlying technology and data. The lion’s share of the effort—70%—should be devoted to supporting people and changing the organizational processes and culture through the program.

There are understandable fears about the new technologies; they will certainly have a profound impact on all of our lives. But as a leader, you need to need to make the case for why they are not so much a threat as a powerful lever to build a stronger organization and a better future.

Capital and Liquidity

“A rising tide floats all boats,” the investor Warren Buffett famously said, and “only when the tide goes out do you discover who’s been swimming naked.” For much of the past decade and a half, many companies have been kept afloat by the massive injection of funds from central banks anxious to avoid a deep global recession in the wake of the financial crisis of 2008. All kinds of companies secured capital very easily and enjoyed historically low interest rates. As a result, corporate valuations went through the roof and the world abounded with paper billionaires.

Eventually, however, the tide went out. When inflation started to rise and then to accelerate with the energy crisis that followed Russia’s invasion of Ukraine, central banks reacted by increasing interest rates and tightening markets. Many companies, whose leaders convinced themselves that low interest rates were the new normal and neglected prudent risk management, were found to be massively overleveraged, and some were forced to close down. In the US, for example, Silicon Valley Bank collapsed in the space of 36 hours after higher interest rates triggered a liquidity crisis which caused its stock price to plummet by 60% and its angry customers to hurriedly attempt to withdraw a total of $42 billion.[9]

Such corporate failures need never have happened. If, in the wake of the financial crisis, companies had opted to maintain a solid capital base with sufficient liquidity to support them through any turmoil in the financial markets, then they would still be a going concern.

So, what should you do as a leader of a future-ready company? Just as supply chain managers now talk of operating a “just in case” rather than a “just in time” approach to procurement, you should be providing a financial cushion for the worst of times. It may not be the most efficient way of running a business, but when the choice is (relative) inefficiency and survival or (lean) efficiency and extinction—which it is—then the choice is simple.

> **Just as companies take a “just in case” rather than a “just in time” approach to procurement, you should be maintaining a financial cushion for the worst of times.**

A more prudent approach will require you to evaluate your company’s real funding needs and to run risk models—even those with extreme scenarios—on a continuous basis so you can better understand the impact of any changes in the financial markets on the viability of your capital base and on your liquidity. This isn’t rocket science. But it means you need to think beyond the here and now and believe you can shape, rather than be a victim of, future events.

Talent

No matter how good your innovation is—and no matter how well you have planned your supply chains, designed your sustainability strategies, applied your technology, or taken care of your capital and liquidity requirements—if you do not have good people, you will struggle to succeed.

Today, we like to lament the lack of digital savvy people, and of AI experts in particular. But the reality is that there are acute talent shortages in all sectors and at every skill level. While the so-called “Great Resignation” may have been overhyped, it is a fact that there is an aging workforce around the world, and millions of people are poised to retire. When they do, they will leave companies with an enormous recruitment challenge.

In Japan and South Korea, the two countries projected to have the oldest populations of the OECD countries by 2040, many companies will see up to 30% of their employees retire over the next ten years. Meanwhile, across Europe, and even in China and the US—two of the three most populous nations—there will be major challenges, as the last of the Baby Boomer generation leaves the workforce.

> **You need a steady flow of talent as much as you need a steady flow of cash and critical components.**

How should you meet this challenge? You need to create a “people balance sheet” or a “people P&L,” because you need to ensure a steady flow of good people just as you need to ensure a steady flow of cash and critical components. Of course, the big difference is that a “people P&L” is about people, not numbers. It’s about human relationships, not cash transactions. It is therefore essential that you develop a talent strategy that focuses not only on going out and getting the people you need but on growing those you already have.

This will take time—time that must be measured not in weeks or months but rather in years or even generations. This is why you need patience, and it’s why human resources has become a top leadership priority: to get your talent strategy right, you need to focus on the future and think deeply about what your company will look like tomorrow.

As CEO, the Choice Is Yours

If CEOs follow a roadmap for continuous and rapid change—building their future-ready company with a streamlined corporate portfolio, breakthrough innovation, resilient supply chains, a clear sustainability strategy, properly embedded technology, a solid capital base with sufficient liquidity, and a “people P&L” that recognizes talent as the company’s most important asset—they can navigate their way to a promising future.

Of course, no one knows what tomorrow will be like. But every business leader should begin each new day with a sense of optimism. A mood of doom and gloom can all too easily become a self-fulfilling prophecy. As the *Financial Times* has reported, there is evidence to suggest that “the west [is] talking itself into decline.” In England in the seventeenth century—on the eve of the industrial revolution—there was “a marked increase in the use of terms related to progress and innovation." By contrast, "over the past 60 years, the west has begun to shift away from the culture of progress, and towards one of caution, worry, and risk-aversion, with economic growth slowing over the same period." This is reflected by the fact that "the frequency of terms related to progress, improvement, and the future has dropped by about 25% since the 1960s, while those related to threats, risks, and worries have become several times more common."[10]

In so many ways, the future is an attitude, a state of mind. So, as CEO, you should talk up your company's chances and, if things go well, you should keep going. If they don't go well—and there will be times when nothing you do seems to work—then you should course-correct by finding solutions.

And, whatever you do, avoid playing the blame game. It's too easy, and it really serves no purpose. If you're knocked down, pick yourself up. Tomorrow is another day—it hasn't happened yet. To a very large degree, you, and the actions you take as CEO, will determine what tomorrow is like. You really do hold your own destiny in your hands—and your company's as well.

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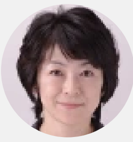

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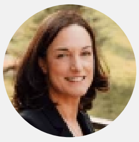

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