

WINNING THE '20s

A LEADERSHIP AGENDA FOR THE NEXT DECADE

By Rich Lesser, Martin Reeves, Kevin Whitaker, and Rich Hutchinson

THE WINNERS IN BUSINESS have shifted markedly in the last decade. When the 2010s began, the world's ten most valuable public companies by market capitalization were based in five countries, only two of them were in the tech sector, and none was worth more than \$400 billion. Today, all of the top ten are in the US and China, the majority are tech companies, and some at least temporarily have surpassed \$1 trillion in value.¹

Given the relentlessness of change on multiple dimensions, the keys to success are likely to be just as different in ten years' time. What will it take to win in the 2020s?

Emerging Challenges Will Reshape Business

The future competitive environment will likely be shaped by multiple trends that are already unfolding today:

- Artificial intelligence is rapidly advancing, and pioneers are advancing beyond

spot applications to implement AI at scale.

- Businesses are increasingly organized into multicompany “ecosystems” that defy traditional industry boundaries and blur the distinction between competitors and collaborators, and producers and consumers.
- Technology is beginning to redefine the nature of work, as well as the relationship between the company and the individual, as both employee and customer.
- The rise of China is challenging the global economic order and the institutions and rules that have defined it.
- Long-term global growth projections have been falling, driven in part by an ongoing deceleration in working-age population growth across major economies.
- Society is increasingly scrutinizing the social impact of technology and the

sustainability and broader contribution of business.

- Investor activism and the role of private capital are rising in many parts of the world.
- The combination of these forces is producing multidimensional uncertainty, which confounds traditional forecasting and planning-based approaches for harnessing the future.

To stay ahead of these trends, leaders need to question their current assumptions and retool their companies for the coming decade. This goes for both traditional incumbents *and* younger digital giants, who will face very different but equally critical challenges in the 2020s—and would do well to learn from each other’s strengths.

Many of today’s leading tech companies have succeeded by building highly scalable digital platforms. But as purely digital opportunities are depleted (especially the opportunity to dominate broad, consumer-oriented digital ecosystems), new opportunities will come increasingly from combining digital technology with existing physical assets. To succeed, digital natives will need to embrace the messier world of specialized assets and industrial customers. They will also need to “come of age” by managing leadership transitions, avoiding the bureaucracy and inertia that generally come with greater size and a longer history, and developing new strategies to preserve trust among users and society at large—challenges that traditional companies have considerably more experience with.

Meanwhile, a new era of competition will provide an opportunity for the resurgence of some incumbents. But the ones that succeed in the 2020s will look very different than they do today—they will have evolved their businesses to harness new technologies and reshaped their external relationships, organizations, and approaches accordingly.

So, how should you prepare your company to avoid being left behind in the coming

decade and emerge as a winner in a rapidly evolving landscape?

A Leadership Agenda to Win the '20s

While many aspects of the agenda will vary by industry and region, we see five powerful emerging imperatives that will cut across industries and geographies.

Master the new logic of competition.

Internet and mobile technology ushered in the information age and profoundly affected technology-intensive and consumer-facing industries such as electronics, communications, entertainment, and retail. But the emerging wave of technology—including sensors, the Internet of Things, and artificial intelligence—will turn every business into an information business. The combination of an exponential increase in data, better tools to mine insights from that data, and a fast-changing business environment means that companies will increasingly need to, and be able to, *compete on the rate of learning*.

Scale will take on a new significance in the learning economy. Instead of the “economies of scale” that today’s leaders grew up with—based on a predictable reduction of marginal production costs across a relatively uniform offering—tomorrow’s leaders will pursue “economies of learning,” based on identifying and fulfilling each customer’s changing needs by leveraging data and technology.

The arenas of competition will also look different in the 2020s, requiring new perspectives and capabilities. The familiar picture of a small number of companies producing a common end product and competing within well-defined industry boundaries will be replaced by one where competition and collaboration occur within and between *ecosystems*. Because ecosystems are fluid and dynamic, and not perfectly controllable even by the orchestrator, companies will need to be much more externally oriented, to deploy influence indirectly through platforms and marketplaces, and to coevolve with ecosystem partners.

Orchestrators of ecosystems can leverage the assets of other participants, and ecosystem-based competition tends to have a winner-take-all nature. These factors are already causing rapidly rising valuations relative to tangible assets for the top companies, as well as an increasing gap between the profitability of high and low performers. But there is not yet any playbook for how to harness this premium: practice is racing ahead of theory, and pioneers who can crack the code on ecosystems will be greatly advantaged.

Finally, companies will increasingly compete on *resilience*. Accelerating technological change, political gridlock, a shifting geopolitical power map, the increased scrutiny of business, and the polarization of society all point to an era of protracted uncertainty, in which corporate life cycles are likely to continue shrinking. Companies will therefore need to worry not only about the competitiveness of their immediate game but also about the durability of that game and their ability to weather unanticipated shocks.

Most of today's incumbents—designed for relatively stable, classical business environments—are not well adapted for this more dynamic environment. Therefore, today's leaders need to fundamentally reinvent the organizational model in order to become future winners.

Design the company of the future. Big data and deep learning have transformed our ability to learn, and the next generation of technologies will undoubtedly bring even more possibilities. History has shown, however, that applying new technologies to existing processes and structures generally yields only incremental gains. To unlock the learning potential of new technologies, leaders need to reinvent the enterprise as a *next-generation learning organization*.

Merely applying AI to individual process steps is not enough: To increase the ability of organizations to learn in aggregate, they must build integrated learning loops that gather information from data ecosystems, continuously derive insights using machine learning, and act on those insights auto-

nomously, all at the speed of algorithms rather than the speed of human hierarchies.

But organizations must not learn only on algorithmic timescales—they must also better understand and position themselves for the slow-moving forces, such as social and political shifts, that are increasingly transforming business.

To learn on *multiple* timescales, leaders will need to design organizations that synergistically combine humans and machines. Algorithms should be trusted to recognize patterns in data and act on them autonomously, while humans should focus on higher-order tasks like validating algorithms, imagining new possibilities, and designing and updating the hybrid “human + machine” organization itself. This division of labor also requires rethinking human-machine interfaces so that humans can trust and productively interact with machines. Collectively, these imperatives demand a massive evolution of organizational capabilities and the creation of new “learning contracts” between employees and enterprises.

Many of these principles are already being implemented in isolated domains, such as the operations of digital marketplaces. But to win the '20s, the same principles must be applied to all parts of the organization in order to create a “self-tuning enterprise” that constantly learns and adapts to the environment. Such organizations must be designed with flexible backbone systems, evolving business models, and, above all, a new model of management—one based on biological principles such as experimentation and co-evolution, rather than traditional top-down decision making and slow cycle planning. Management needs to shift its emphasis from designing hardwired structures and procedures to orchestrating flexible and dynamic systems.

Apply the science of organizational change. Reinventing organizations to compete in the 2020s will not be a trivial task. Whether because of risk aversion or complacency stemming from today's increasingly concentrated industries and elevated profit-

ability levels, leading companies may be understandably reluctant to unleash fundamental change preemptively. But our research shows that the single biggest factor influencing the success of major change programs is how early they are initiated. It is therefore critical to create a sense of urgency within the organization to ensure that everyone truly understands the need for change.

Even for companies that are committed to such transformation, it can be a risky endeavor: our research shows that most large-scale change efforts fail. Therefore, leaders need to employ *evidence-based transformation*—understanding empirically what works and why, rather than relying on plausible assertions and rules of thumb. In an era when many powerful forces are revolutionizing how organizations function, building repeatable transformation capabilities will be more important than ever.

Leaders also need to de-average and differentiate their approaches to change. Large-scale transformation programs comprise multiple change challenges, from exploring new fields and approaches, to adaptively refining new models, to implementing structured change with clear objectives and means. Leaders will need to diversify their approaches to change accordingly, moving beyond the monolithic programs centered only on PMOs and Gantt charts. By adopting continuous change as the default, episodic change programs will give way to change as an ongoing operating imperative.

Embrace the business imperative of diversity. Diversity is not only a moral imperative—it can also make businesses more effective in the long run. Our study of more than 1,700 companies around the world shows that diversity increases the capacity for innovation by expanding the range of a company's ideas and options. And as the speed of change accelerates, innovation and reinvention are increasingly necessary to stay on top.

The most obvious sources of diversity, such as gender, ethnicity, and sexual orientation, are indeed important in driving innovation,

but variety of work experience and educational background is also meaningful. Importantly, these factors are mostly additive, so companies that are diverse on multiple dimensions are even more innovative. Structural diversity alone, however, is insufficient. Organizations also need an environment conducive to embracing new ideas, and they must install open communication practices, participative leadership, commitment to building diversity in top management, openness to testing multiple ideas, and other measures to unlock the full potential of diversity.

Diversity also increases resilience. Like biological communities and organisms, companies that encompass more heterogeneity are likely to withstand unanticipated changes better. Enterprises that embrace diverse talent, ideas, and sources of growth will have an advantage in understanding and adapting to external shocks—which increasingly threaten the survival of individual businesses.

Optimize for both social and business value. Several trends are fueling resentment toward business. The climate crisis and other negative externalities are increasingly visible, automation is sparking fear about the future of work, trust in technology is falling, inequality has risen markedly within many countries, and the most successful companies are becoming larger, more visible, and more powerful. As a result, the role of business in society is coming under question, risking the sustainability of the current model of corporate capitalism.

Political institutions are not likely to address these concerns effectively in the foreseeable future. Demographics that portend lower global growth, massive public debts that limit investment, tensions resulting from international migration, and a social media landscape that amplifies extreme voices are all likely to continue fueling divisive, populist politics. The rise of China, and the growing US response, challenge the stability of multinational institutions that businesses rely on. In an era characterized by polarization, everything in business will likely become “political.”

To keep the game of business going, business needs to be part of the solution. All stakeholders increasingly expect companies to play a more prominent role in addressing social challenges, which will be reinforced as newly adopted metrics and standards make their efforts and impacts more transparent. Leaders need to focus on their companies' *total societal impact*—in other words, they need to make sure that their businesses create social as well as economic value. Not only can this increase financial performance in the long run, but it can strengthen the social contract between business and society, ensuring that the relationship is able to endure. Leaders will need to master the art of corporate statesmanship, proactively shaping the critical societal issues that will increasingly change the game of businesses.

WINNING THE PRESENT is challenging enough, but the more essential task of leadership is winning the future. The fast-changing world will test our status quo assumptions, and it is critical to look forward in developing an agenda for the next decade. Here we've offered a starting point for that journey, presenting themes that we will further elaborate in subsequent publications. We invite all leaders who aim to win the '20s to join the conversation.

NOTE

1. Based on market capitalization at the end of 2018 Q3.

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The BCG Henderson Institute is Boston Consulting Group's strategy think tank, dedicated to exploring and developing valuable new insights from business, technology, and science by embracing the powerful technology of ideas. The Institute engages leaders in provocative discussion and experimentation to expand the boundaries of business theory and practice and to translate innovative ideas from within and beyond business. For more ideas and inspiration, follow us on Twitter: [@BCGHenderson](https://twitter.com/BCGHenderson).

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